Austria	Sch30	Iran	Rls210	Pakistan	Rs35
Bahrain	Din0.900	Israel	Shk4.80	Philippines	Peso40
Belgium	BFr60	Italy	L2000	Poland	Zl 5,000
Cyprus	C£1.00	Jordan	JD1.20	Portugal	Esc185
Denmark	DKr13	Korea	Won 2500	Qatar	QR10.00
Egypt	E£3.50	Kuwait	Fils.500	S.Arabia	SR9.00
Finland	FM9.00	Lebanon	L£1,000	Singapore	S$4.10
France	FFr7.50	Lux	LFr60	Spain	Pta175
Germany	DM3.00	Malaysia	M$4.25	Sweden	SKr13
Greece	Dr200	Morocco	MDh10	Switz	SFr2.70
Hungary	Ft120	Neth	Fl3.30	Thailand	Bt60
Iceland	IKr160	Nigeria	Naira12	Tunisia	Din0.800
India	Rs22	Norway	NKr13.00	Turkey	L3000
Indonesia	Rp3100	Oman	OR1.20	UAE	Dh8.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

FT No. 31,352

Monday January 14 1991

D 8523A

MANAGEMENT

Taking a hard look at soft skills

Page 9

World News

Spain set for reshuffle as deputy premier quits

Alfonso Guerra, the closest political ally of Spain's prime minister Felipe González for the past 25 years, tendered his resignation as deputy premier at the weekend, paving the way for a government reshuffle and fundamentally altering the balance of power in Spain's eight-year-old Socialist government. Page 14

German PM resigns

Lothar Späth, prime minister of the German state of Baden-Württemberg, resigned after a scandal over his acceptance of holidays paid for by private companies. Page 4

Portugal at the polls

Mario Soares looked set to win a second five-year term as Portugal's president in yesterday's presidential elections, without the need for a second round of voting. Page 3

China visit to France

China today stages its first official visit to France since the Chinese government's violent crackdown on pro-democracy activists in June 1989, the latest sign in a gradual improvement in relations between the two powers. Page 3

Soccer riot kills 40

At least 40 people were killed when violence erupted at a soccer match over a referee's decision near the town of Orkney, about 80 miles south-west of Johannesburg. Page 3

Slander case ends

Prosecutors have dropped a slander case against defeated presidential candidate Stanislaw Tyminski after Poland's former prime minister, the man Tyminski had accused of treason, said he did not want a trial.

Five die in jet crash

A Learjet crashed in the Brazilian state of Minas Gerais killing all five people on board, including the mayors of two small cities, according to local press reports.

Soviet job outlined

President Mikhail Gorbachev has served notice that his future prime minister will be in charge of the economy and little else, according to the short list of four names he submitted at the weekend. Page 4

Albania group forms

A dozen leading Albanian intellectuals and university professors have founded the country's first pressure group on human rights issues, the Albanian Human Rights Forum. Page 4

Swiss plan UN force

Neutral Switzerland plans for the first time to set up a battalion of 1,000 soldiers to serve with United Nations peacekeeping forces, the Foreign Ministry said.

Noriega trial delayed

The trial of ousted Panamanian leader General Manuel Antonio Noriega on drug-trafficking charges, scheduled to begin later this month, has been delayed until June 24 in Miami. Page 3

Cape Verde votes

Voters in Cape Verde formed huge queues to vote in the first multi-party elections since independence from Portugal 15 years ago. In Praia, the island capital, Carlos Veiga, the leader of the only opposition party running in the election, waited in line for three hours before casting his ballot.

Mrs Bush injured

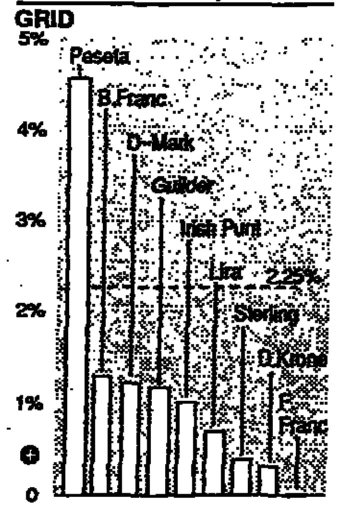
Barbara Bush, wife of the US president, was treated in hospital for cuts and bruises after falling off her sled and into a tree at the presidential retreat at Camp David, Maryland.

Business Summary

Banks put $1bn Nigerian oil project in jeopardy

THE London Club of commercial banks has put a $1bn Nigerian oil project in jeopardy by refusing to allow the Lagos government to raise security for the scheme, which has been planned by Mobil Nigeria and the state-owned Nigerian National Petroleum Corporation. Page 3

EUROPEAN Monetary System: Sterling moved off the bottom of the exchange rate mechanism for the first time since early November, supported by the British government's rejection of an early reduction in bank base rates. The pound was also considered a relatively safe haven in the event of a Gulf war, while signs of unrest in the Soviet Union weakened the D-Mark and eased pressure on weaker ERM currencies.



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the EMS narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. Sterling and the Spanish peseta operate with 6 per cent fluctuation bands.

DAVY PITTSBURGH, US subsidiary of the Davy engineering group, won a $200m contract to supply a galvinising line to Pro-Tec Coating, a joint venture between USX's steel division and Kobe Steel of Japan. Page 4

BRENT WALKER, UK leisure group, secured a waiver from its creditors on a February deadline for producing an agreement on refinancing its £1.4bn ($2.7bn) debt. Page 16

US COMMERCIAL bank advisers held the second five of the top 10 places in the French mergers and acquisitions market last year, according to a survey by Fusions & Acquisitions magazine. Page 17

LONDON: Significant changes to the way UK shares are traded take effect today amid claims in some quarters that the new rules will distort the operations of the stock market. Page 15

CARIPLO, Italy's biggest savings bank, has confirmed that it is considering an offer to buy full control of Banca Jover, the Spanish bank owned by Banco de Santander. Page 17

HUNGARY has named the financial advisers on the 20 privatisations which will constitute the first phase of the country's sweeping privatisation programme. Page 17

TOKYO: Seiji Tsutsumi, the owner of Saison Group, one of Japan's largest conglomerates, has announced plans to delegate some of his authority to senior executives. Page 17

NORTHERN Ireland business failures reached a record level last year according to figures published in the UK. Page 6

Lithuanians defy curfew to confront Soviet army

By Leyla Boulton in Vilnius and Quentin Peel in Moscow

AT LEAST 50,000 Lithuanian demonstrators were last night defying a military curfew and risking a bloody confrontation with Red Army tanks.

The official death toll last night stood at 13, with 144 injured, after a brutal grab for power by armoured units and the rump of the republican Communist Party in the early hours of Sunday. The virtual coup d'etat by the Soviet military was in support of a self-proclaimed National Salvation Committee with only two known members.

President Mikhail Gorbachev was facing worldwide condemnation for the violent operation, which saw tanks plough into unarmed demonstrators before soldiers opened up with automatic weapons on a crowd attempting to defend the Lithuanian radio and television headquarters.

Some victims died from gunshot wounds, others were crushed under the tracks of the Soviet tanks. Latvian television last night showed pictures of soldiers throwing bodies out of the windows of the television station, as well as one woman being crushed by a tank.

The assault came in spite of a decision by the Soviet Federation Council, supposedly the supreme executive body under the president, insisting that only a political solution should be sought to the independence demands of Lithuanian nationalists.

Mr Gorbachev last night also faced a revolt from republican leaders in the Federation Council, apparently furious at being *ignored. Mr Boris Yeltsin, pres*ident of the Russian federation, was reported to be flying to Tallinn, the capital of Estonia, for consultations.

The Russian president, the most popular politician in the country, threw his weight behind the Baltic republics on Saturday when he insisted that the use of military force was "inadmissible".

Mr Gorbachev failed to appear on television to provide any explanation, leaving the job to his conservative interior minister, Mr Boris Pugo, and arousing speculation that he was no longer in control of the operation.

Senior US officials warned that next month's Soviet-US summit in Moscow was in the balance, depending on the action in the Baltic republics. The European Community summoned an emergency meeting of foreign ministers for today to reconsider aid to the Soviet Union and demand an explanation of the action. The Nato allies also sat in emergency session over the weekend, and Czechoslovakia threatened to quit the Warsaw Pact.

Nevertheless, both Latvia and Estonia, the two other rebellious Baltic republics, are now in a state of near panic in the expectation that identical military operations, co-ordinated with conservative Communist forces, could take place in the wake of the Lithuanian coup.

Mr Dainis Ivans, the Latvian vice-president, predicted a paratroop attack this morning, while in Estonia the authorities are forecasting action tomorrow. A huge rally in Riga, the capital of Latvia, was summoned in support of the republican parliament. Military helicopters dropped leaflets on the demonstrators, urging them to denounce their parliament, but the effect was the opposite.

In Vilnius last night the Lithuanian yellow green and red tricolour was at half mast atop the parliament building. Determined to defend President Vytautas Landsbergis and the republican government, the crowd was acting as a human barrier between the building and a possible onslaught from Red Army tanks.

Inside, 600 Republican volunteers prepared for an attack with the motley collection of weapons and limited ammunition at their disposal.

Earlier yesterday as the crowds swelled around parliament, Mr Landsbergis announced contingency plans for a government in exile should Lithuania's democratically elected bodies be overthrown. He also announced that Mr Gediminas Vagnorius, a 34-year-old economist, had become Lithuania's prime minister following the mysterious overnight disappearance of Mr Albertas Simenas – elected prime minister only two days ago – along with his family and bodyguard. Mr Simenas reappeared at parliament yesterday evening, but it was not clear why he had gone missing in the first place.

Meanwhile, the seeming isolation of Lithuania was broken by the unexpected arrival of a reconciliation commission despatched from Moscow by President Gorbachev before the overnight clampdown.

The commission, headed by Mr Levon Ter-Petrosian, the charismatic Armenian president, held talks with President Landsbergis and later met the Baltic military commanders at the headquarters of the Vilnius garrison. The meeting continued late into the evening.

International reaction and analysis, Page 4; Editorial Comment, Page 12

A Soviet paratrooper attacks a Reuter photographer as soldiers storm the television tower in Vilnius, the Lithuanian capital. At least 13 people died and scores more were injured

Iraq expected to spurn peace bid from UN chief

By Tony Walker and Lamis Andoni in Baghdad, Peter Riddell in Washington and Robert Graham in London

PRESIDENT Saddam Hussein *yesterday kept the world* guessing when he appeared to spurn a last-ditch appeal for peace from Mr Javier Pérez de Cuéllar.

The United Nations secretary-general had gone to Baghdad in a final bid to persuade the Iraqi leader to pull out of Kuwait and avoid war.

Mr Pérez de Cuéllar met the Iraqi leader for 2½ hours and said before boarding his flight for Europe: "God only knows if there will be peace or war in the Gulf. I'm neither a pessimist nor an optimist."

Mr Tariq Aziz, the Iraqi foreign minister who accompanied the secretary-general to the *airport, refused to* comment on the talks.

With the UN deadline for Iraq's withdrawal from Kuwait expiring at midnight New York time tomorrow (5am GMT) this leaves little time for alternative diplomatic efforts.

The UN secretary-general is now expected to hand the initiative over to the European Community and to President François Mitterrand of France, *who has been waiting in the* wings as a mediator of last resort. The UN chief is due to meet the French president today.

The EC is expected to hold an emergency meeting of foreign ministers in Brussels today.

Mr Saddam set the tone yesterday with an uncompromising public statement claiming Kuwait was "forever" the 19th *province of Iraq. He also* boasted of possessing "surprise" weapons which would inflict massive dmaage on his enemies.

Earlier he brushed aside last-minute pleas from both King Fahd of Saudi Arabia and President Hafez al-Assad of Syria to withdraw from Kuwait and prevent a war which could only benefit Israel. The Iraqi army, he said, was capable of *protecting "Iraq and the hon*our of the Arab nation".

Last night Luxembourg, which holds the rotating EC presidency, sent Jacques Poos, the foreign minister, to Paris to meet Mr Pérez de Cuéllar.

On Saturday the US Congress backed President George Bush to embark on war at the head of the 500,000 strong coalition forces massed in the Saudi desert and Gulf waters. "It is a critical moment in history," Mr Bush commented after first the Senate had decided 52-47 in favour of war and then the House of Representatives by 250-183.

Against this sombre background two sessions of talks in Baghdad yesterday between Mr Saddam and Mr Pérez de Cuéllar appeared to make little headway.

The UN secretary-general had no formal authority to negotiate; but had carried ideas which had received the backing of the European Community. This included a UN peacekeeping force in the Gulf, coinciding with an Iraqi withdrawal from Kuwait, which would be accompanied by accelerated moves to arrange a peace conference on the Middle East.

As the clock moved inevitably towards conflict, a glimmer of hope came from the anticipated Franco-EC diplomatic initiative. Libya, too, was doing its best to urge an Iraqi withdrawal with Major Abdel-Salam Jalloud, the regime's number two arriving in Jordan before moving on to Baghdad and Tehran.

Mr Yassir Arafat, the perennially optimistic leader of the Palestine Liberation Organisation who also met the UN sec*retary-general in Baghdad* yesterday, told reporters: "I don't believe the war will break out . . . January 15 is only a date like all other dates . . . The only difference to me is that it is the birthday of Nasser."

Another glimmer of hope was seen by some leaders in the convening of a special session of the Iraqi National Assembly due today. In the past this rubber-stamp body has been used by Mr Saddam to endorse a number of critical decisions.

Turkish president Turgut Ozal said yesterday he believed something positive could come from this meeting: " Let's wait to see what will come out of the Iraqi congress tomorrow", he said.

Tanks and troops shatter dreams of independence

By Leyla Boulton in Vilnius

IT WAS 2am. In front of the television station in Vilnius, surrounded by Soviet troops, a tank gun swivelled around sud*denly as if to sweep away the* crowd.

It opened fire with a shattering boom, but the shot must have been a blank. A small crowd clutching a Lithuanian tricolor of red yellow and green stood firm. Then soldiers on the ground fired live ammunition from automatic weapons.

Young and old, barely visible in the dark, fell to the ground. One demonstrator tried to *throw lumps of mud at the sol*diers. The others began to run.

I cannot remember any screams of fear or pain, but only some angry shouts, and silent crying. Then firing broke out all around as the tanks sought to drive the people away from the television tower.

"Fascists! Fascists!" shouted the crowd as it reassembled at the bottom of the hill and the tanks continued their work. There must have been at least a dozen of them, and armoured cars as well.

A searchlight from one of *the vehicles near the television* tower panned across the nearby apartment blocks below. A sobbing woman tried to stumble towards one of the tanks to stop it, but was hauled away by a friend.

"Bastards, you talk to them, they don't want to hear anything. They are like robots," said Daublis Haroldas, an 18-year-old student. "Say hello to Gorbachev, the Nobel prize winner. *Tell the world what he* has done here," shouted a furious middle-aged man.

And then it was all over.

The tanks circled the tower, having cleared it of the last demonstrators. And then perhaps the most sinister moment of all, a sickly sweet Russian voice came over a loudspeaker.

"Lithuanian brothers," said the voice. "This is the National Salvation Committee. All power in the republic is now in our hands. It is the power of workers, peasants and soldiers. All resistance is meaningless. Go home to your parents and *children.*"

But people did not go home, wandering in a daze on the road down below the tower. "This is only the beginning of our liberation from the red beasts," was one of the defiant *opinions* being voiced by the crowd.

At Vilnius first district hospital, Regina Lukinevicius, aged 30, lay in a gynaecology ward with shrapnel injuries to *her feet. "There will be no* Lithuania," she said, with tears welling in her eyes as she remembers the soldiers. "They were laughing like drunks, as if they were on drugs, as if this was a game and not people."

In homes across the republic, came a pathetic message from the one nationwide radio station still up and running in the town of Kaunas, the former Lithuanian capital.

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CONTENTS

THE MONDAY INTERVIEW

When congressman Lee Hamilton of Indiana urges caution – as he has over early military action in the Gulf – people in Washington take notice. He is one of Capitol Hill's most influential voices on foreign policy issues **Page 32**

FT SURVEYS THIS WEEK

The World Industrial Review appears tomorrow – see details, right.

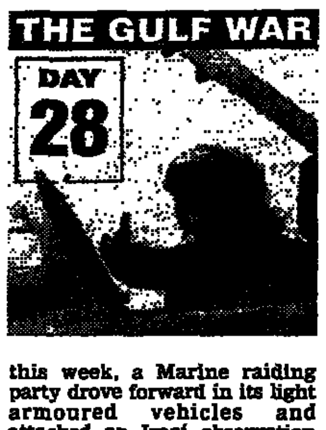
■ TUESDAY

World Industrial Review: Industry enters 1991 beset by uncertainty. The threat of war in the Gulf, rising oil prices, a beleaguered banking industry, disarray in the Soviet Union, and the collapse of Gatt trade talks all combine to create a mood of unrelenting gloom. The downturn will test how far the much-vaunted strategies of the 1980s have turned companies round – and how much still needs to be done.

Mozambique: Negotiations to end a 15-year civil war are under way, and the country is moving towards a mixed economy, multi-party system, but rebuilding this devastated, aid-dependent country, will be a long haul.

Signs from the front suggest land war soon

By Tony Walker in Dhahran



WHILE political leaders in Washington and London say they will not be rushed into a ground offensive, all the signs from the front indicate that a land battle is near.

Tuesday's combined US and Saudi Arabia artillery and rocket bombardment, supported by the battleship USS Missouri, of Iraqi troop concentrations in Kuwait was a prelude of things to come.

The ground offensive would be heralded by a furious artillery barrage against Iraqi positions, and probably by probing operations carried out by US Marines and other frontline troops.

Despatches from the front build up a picture of heightened readiness and expectations that any day now orders will be given for the land offensive. Combat units continue to move forward as commanders prepare their men for battle.

While the Gulf war has been dominated by the air campaign, highly mobile Marine units have been duelling with Iraqi ground forces all along the Kuwait-Saudi border.

In an engagement earlier this week, a Marine raiding party drove forward in its light armoured vehicles and attacked an Iraqi observation post under cover of darkness. The raiding party rained hundreds of mortar and 25mm cannon rounds and TOW missiles on to the Iraqi position, then disappeared moments later into the Saudi desert. The Iraqis did not return fire, and the post was left a smouldering wreck.

"That's just what we wanted to do – go in and wreak some destruction on the enemy and get our people out. The enemy had to be thinking, what the hell is firing out there," said Capt Mike Shupp, the Marine commander.

Operating from the barren Saudi desert, Marines have launched numerous night time attacks on Iraqi positions inside Kuwait.

A clear sign to soldiers in the field that a land war is coming is the fact that the air campaign has shifted much closer to them in the last week or so. Allied aircraft are now hitting ground targets just across the border in Kuwait round the clock.

Dozens of fires are raging in Kuwaiti oil fields, and a thick pall of smoke hangs over much of the region. Lights flash from bombs bursting on Iraqi ground positions and from the red and green tracers of Iraqi anti-aircraft fire. For soldiers in the front line, the ground occasionally trembles from the impact of allied bombing.

"We're glad we're not on the receiving end," said a young Marine. "Every morning when you wake up its boom, boom, boom."

Allies face fallout from Baghdad blast

By David White, Defence Correspondent

NEWS OF the carnage in a bombed Baghdad air raid shelter could hardly have come at a worse time for the US and its allies, in terms of its impact on Arab and world opinion.

It follows closely on this week's signals from Washington that the four-week-old bombing campaign will be prolonged before any attempt is made to use ground troops to oust Iraqi forces from Kuwait. At the same time, allied claims that raids are restricted to targets of military significance are being increasingly called into question.

The Iraqi authorities, while highlighting what they claim as evidence of attacks on civilian buildings, had until recently played down the number of casualties. It was not until this week that they started to speak in terms of thousands – 6,000 to 7,000 – rather than hundreds.

Previous Iraqi evidence of civilians being killed or wounded has been difficult to verify. An attack on a bridge at Al-Nisiriya in southern Iraq last week was said to have killed 47 civilians and injured 102, the largest toll in a single incident so far in the war. But a British cameraman who filmed the casualties in hospital said later that a number were soldiers.

Information on Iraqi military casualties has been lacking, with no credible figures from either side to match the extent of allied attacks on installations and equipment.

The US and its allies have emphasised from the outset of their offensive that attacks are aimed only at strategic and military targets. This definition embraces civilian facilities such as power stations, which the army relies on to keep its command and control operating.

Allied commanders have claimed that their policy has been followed with unprecedented rigour, pointing out instances in which whole groups of aircraft have returned to base without dropping their armaments as they could not identify their assigned military targets.

However, they have admitted it is impossible to avoid civilian casualties.

US experts recognise that precision weapons such as laser-guided bombs do not always hit their targets, as their guidance systems can malfunction or be disrupted – for instance by cloud. The US raid against Libya in 1986 showed up the possible failings of attempted precision attacks.

But the US Central Command made clear that the reinforced structure in Baghdad was "struck as designated" and that in purely military terms "nothing went wrong."

The signs point to an intelligence failure over the facility's use by civilians. Brigadier General Richard Neal, the US briefer, said the structure was built as an air-raid shelter in 1985 but had been upgraded for use as a military command and control centre, and the roof had recently been camouflaged.

"We have no explanation at this time, really, why there were civilians in this bunker," he said.

Group Captain Niall Irving, a British military spokesman in the Gulf, said if the report was true it was a "tragedy" and "obviously something did go wrong".

The allies regarded key military headquarters in civilian areas as "bona fide" targets. But smaller military units using suburbs as cover would not be attacked, he said.

Bodies lie under blankets in a Baghdad street yesterday outside the underground shelter in which they died during an air raid

Survivors tell of shelter nightmare

By Salah Nasrawi of the Associated Press in Baghdad

JUST eight people were pulled alive from the rubble of the Baghdad shelter hit by missiles early yesterday, according to rescue workers.

Witnesses said the entrance to the shelter in the Al-Amerieh district took direct hits from at least two missiles fired by allied warplanes at 4am.

Reporters who were taken by Information Ministry officials to the scene several hours later counted more than 40 charred bodies laid out on the ground that were to be taken by ambulances to a morgue.

Dozens of other mutilated bodies had been dug out before the reporters arrived, rescuers said. The shelter was still ablaze about six hours after the attack and firemen were struggling to extinguish the flames.

A civil defence official said scores of people remained buried in the rubble, but that there was no hope that any of them was still alive.

"There are no survivors there any more. The fire is melting the metal. There's no way any human being could have survived until now," an official said.

Health Minister Abdel-Salam Mohammed Saeed told reporters that there were 1,000 people inside the shelter, one of five such massive fortifications built in Baghdad during the 1980-88 war against Iran.

'I turned to try and touch my mother who was next to me but grabbed nothing but a piece of flesh'

But rescuers said the survivors and other residents of Al-Amerieh spoke of only 400-500 people inside the shelter.

The eight survivors, all of them suffering severe burns, were taken to the nearby Yarmuk Hospital.

One of the injured, Omar Adnan, said he was the only survivor from his family of six. His three younger sisters, mother and father, all perished.

In a faint voice, Adnan, 17, said: "I was sleeping and suddenly I felt heat and the blanket was burning. Moments later, I felt I was suffocating.

"I turned to try and touch my mother who was next to me but grabbed nothing but a piece of flesh," he said.

The Iraqi authorities said there were no military installations anywhere near the Al-Amerieh district, a middle-class residential neighbourhood. Several large arrows with the word "shelter" written on them in Arabic and English pointed to the large concrete facility.

Bombers hit Iraqi equipment

By Victor Mallet in Riyadh

ALLIED bombers continued to whittle away Iraqi military equipment yesterday and spokesmen – in between fielding questions about the killing of civilians in Baghdad – announced attacks on Scud launchers, artillery, aircraft, hardened aircraft shelters and factories in Kuwait and Iraq.

British jets attacked a plant making liquid fuel for Scud missiles and in other raids apparently destroyed five Brazilian-supplied Astros multiple rocket launchers, which have a range of up to 60km.

US pilots reported destroying four Iraqi transport aircraft in Kuwait and northern Iraq, and a Super Frelon helicopter capable of carrying two Exocet missiles at Fao in southern Iraq. A Saudi F-5 and its pilot were lost on a bombing mission.

Allied military commanders played down the effectiveness of smoke caused by 40 to 50 oil fires. Most of them, including five oil wells in the Wafra area of Kuwait set alight this week, appear to have been started by the Iraqis to hide their forces from air attack.

One military officer described the Iraqis as "very resourceful" and said they had patched up their communications as best they could and sandbagged their tanks when they expected an attack. But Grp Capt Niall Irving, the British spokesman, said clear weather had enabled allied pilots to be flexible and hit military targets even if they moved from their original positions during the night.

Iraqi deserters continued to trickle across the front line. According to the alliance, they speak of a patchy supply system for the Iraqi army which favours veteran divisions rather than the newcomers which have generally been sent to the front.

Clean-up of oil slick may cost $1bn

By Deborah Hargreaves

CLEANING up the Gulf oil slick – the world's worst – could cost $1bn (£500m), according to Saudi officials.

They warn, however, that the price of protecting the fragile environment in the area over the longer term could amount to considerably more than this.

This could test the resources of the kingdom, which is already believed to be raising a $3.5bn loan from international banks to fund the war effort. Western diplomats have suggested the kingdom's inability so far to deal with the slick highlights its financial plight.

Western nations have sent tonnes of equipment and experts to assist the clean-up, but most expect to be paid for their efforts.

The spill, which contains more than 11m barrels of oil, is moving down Saudi Arabia's east coast and could reach the industrial town of Jubail in two to three days.

An official at the Meterology and Environmental Protection Administration (Mepa) in Dhahran said yesterday the slick had passed Ras as Zawr, about 40 miles from Jubail.

The official said the slick's progress could be slowed by winds blowing it on-shore at Abu Ali island, where the oil would do considerable environmental damage but would buy some time for Jubail.

Prince Abdullah bin Faisal bin Turki, chairman of the Royal Commission for Jubail, has said the slick has broken up into roughly five sections.

The prince said it was impossible to assess the full extent of the damage as the oil could circulate in the waters of the Gulf for years. "There is quite a bit of room for more pain," he said. "This is a terrible thing, ecologically speaking."

Jubail houses the world's largest desalination plant, which produces about two-thirds of the drinking water for Riyadh, the Saudi capital. The port also contains an oil refinery which produces 250,000 barrels a day and a petrochemicals complex.

The Saudi prince said the plants were protected with booms and that measures had been taken to avoid damage to these.

Mepa said ocean-going booms that could withstand heavy seas were put in place at Jubail yesterday.

The town is expected to spend between $50m and $60m on environmental protection in coming weeks.

The United Nations is drawing up a large-scale ecological plan for a long-term clean-up of the Gulf.

US bank completes fund raising for $3.5bn Saudi Arabian sovereign loan

By Victor Mallet in Riyadh and Stephen Fidler in London

J.P. MORGAN, the New York bank, has successfully completed fund raising for a $3.5bn (£1.75bn) sovereign loan being arranged for Saudi Arabia, the first major borrowing by the kingdom in modern times.

The financing, a three-year loan, has been syndicated among a group of more than a dozen international banks, diplomats and bankers said yesterday. It will carry an interest margin of ½ percentage point above money market rates.

The loan agreement has still to be signed and the funds have not been drawn down.

The interest margin is said by bankers to carry a premium because of the Gulf war. Under internationally agreed capital guidelines banks do not have to set aside any capital for lending to the Saudi Arabian government.

The loan was characterised yesterday as a prudent move by the Saudi government in face of huge financial uncertainties brought about by the war and swings in oil prices and production. The funds will go into the country's general reserves.

Saudi Arabia's foreign exchange reserves have declined significantly in the last two years, largely because of weak oil prices.

It is assumed the borrower will be the Saudi Arabian Monetary Agency, the kingdom's central bank, or possibly the Finance Ministry. Mr Mohammed al-Sayari, the Sama governor, is said to have been the kingdom's chief negotiator over the past three weeks.

The government has not borrowed directly in recent times, although state-affiliated organisations such as the Public Investment Fund and the Saudi Arabian Basic Industries Corp, the petrochemicals company, have tapped international markets.

Saudi Arabia itself, wary of offending Islamic strictures on the payment and receipt of interest, is unlikely to say much about the loan in public. "This matter is very sensitive," said a Saudi official yesterday. "Nobody wants to talk about it."

Bankers said a number of banks were also sensitive about their participation in the transaction, fearing it could trigger Iraqi-sponsored terrorism.

They added the loan was apparently put together over a short period and was completed a few days ago.

The ease with which the fund-raising was achieved surprised some bankers; the fact that the Saudi government has no outstanding loans in its own name would have helped the fund raising, they said.

Figures published yesterday from the Bank for International Settlements, the Basle-based forum for central banks, showed a sharp $5.2bn drop in Saudi deposits with international banks in the third quarter, following Iraq's invasion of Kuwait. The deposits of the United Arab Emirates also dropped, by $3.4bn.

Saudi Arabia is said to have spent or committed about $48bn on the war. It is estimated to have gained only between $12bn and $15bn from the windfall of higher oil prices and increased production since August last year and had only $10bn of liquid reserves at the beginning of 1990.

The government has postponed its budget for the current year because of the uncertainties.

According to one banker with knowledge of the transaction, the Saudis believe the war will end soon but still feel that raising funds now is preferable to waiting until its conclusion.

Jordanian refugee bus hit by missiles

By Mark Nicholson in Amman

A GROUP of returning Jordanian refugees claimed yesterday that coalition aircraft had attacked and destroyed a civilian bus on the Iraq-Kuwait border, killing 30 Jordanians fleeing Kuwait.

Six Jordanian refugees, who said they had survived the raid, told reporters at the Ruweishid border post with Iraq that coalition aircraft had fired three missiles at the bus during an attack on Saturday, scoring one direct hit.

They said 30 of the 54 people aboard were killed. One refugee, Mr Chehadeh Ibrahim, said some passengers scrambled clear of the bus after a first missile landed in front of the vehicle.

"We started running out and then another missile hit the middle of the bus, and 30 people, including four little children, were burned to death," he said.

Throughout the bombing campaign, Jordanians have been deeply concerned about the levels of reported civilian casualties in Iraq .

The reports follow a recent spate of coalition attacks on the Amman-Baghdad highway in which up to 36 Jordanian oil tankers have been destroyed and nine drivers killed.

The government last night offered no comment on the latest reports of Jordanian casualties, however, officials said they were treating the reports seriously. One senior Jordanian official said: "People will be shocked, angry and will demonstrate against these attacks."

Thousands of Jordanians have already taken to the streets in pro-Iraqi – and usually vehemently anti-American – protests over the past three days.

Diplomats here suggest that, for the time being at least, there are unlikely to be disturbances serious enough to trouble Jordan's highly-efficient security service. So far, attacks on western targets in Jordan have been few and amateurish.

However, Jordanians at all levels of society have followed the bombing of their neighbour – for whom almost all profess deeply-felt support – with a combination of fury and incomprehension.

NEWS IN BRIEF

Syria 'ready to accept Israel's right to exist'

GERMAN foreign minister Hans-Dietrich Genscher said yesterday Syria was ready to recognise Israel's right to exist as part of a comprehensive Middle East peace order after the war, AP reports from Damascus.

Syria is aware that the right of self-determination for the Palestinians would mean that "Israel's right to exist is recognised and secured," Mr Genscher said after talks with Syrian foreign minister Farouk al-Sharaa.

Spain in Maghreb mission

Mr Francisco Fernandez Ordonez, the Spanish foreign minister, travelled to Mauritania yesterday on the first leg of a potentially tense five-nation tour that aims to assess growing anti-western sentiment in North Africa and salvage as much as possible of Spain's relationships with the Maghreb governments.

He will visit Morocco, Algeria, Tunisia and Libya before meeting fellow EC foreign ministers in Luxembourg next Tuesday. Mr Fernandez Ordonez is expected to encounter sharp protests over Spain's decision to allow US B-52s to raid Iraq from bases in Spain.

Turk 'spied for Iraq'

Turkey has charged a member of the banned right wing organisation, the Grey Wolves, with spying for Iraq, John Murray Brown reports from Ankara. Mr Hicabi Kocyigit, was said to have given military information to the Iraqis on February 1, ten days before ten Iraqi diplomats were expelled.

Cash boost for Egyptair

THE Egyptian government has agreed to inject $100m into the state-owned airline, Egyptair, which has suffered a 75 per cent drop in revenues as a result of the Gulf crisis, Max Rodenbeck writes from Cairo. Egyptair, which estimates its losses in Kuwait at $10m, claims that Iraq stopped repayment on $113m in debts before the invasion of Kuwait because of a hard currency shortage.

Germany is to give Egypt DM150m and up to 30 Fuchs chemical war "sniffer" vehicles.

Soviet Union to pursue peace dialogue

By Peter Riddell, US Editor, in Washington

THE Soviet Union said yesterday the talks between its envoy, Mr Yevgeny Primakov, and Iraq's President Saddam Hussein "gave cause for hope" and the dialogue would continue.

The US responded by pointing out there had been no sign from Baghdad of any willingness to withdraw from Kuwait.

A Soviet spokesman said Mr Tariq Aziz, the Iraqi foreign minister, would meet President Mikhail Gorbachev in Moscow on Monday.

After the Baghdad meeting Iraqi radio said Mr Saddam would co-operate with the Soviet Union in "finding a peaceful, political, equitable and honourable solution to the region's central issues, including the situation in the Gulf."

Mr Sergei Grigoriev, Mr Gorbachev's spokesman, said the purpose of the talks was to pursue Moscow's diplomatic initiative to find a peaceful solution, though he stressed that "the essence of the Soviet plan will never go beyond the limits of the United Nations Security Council resolution obliging Iraq to withdraw from Kuwait and restore the independence of Kuwait."

The White House commented that the deciding factor was what the Iraqi leader had to say about getting out of Kuwait and noted that the Iraqi radio statement made no mention of Kuwait.

The State Department said that Mr Saddam's remarks appeared to contain "the same old linkage" between the Gulf war and the Palestinian question which the US had repeatedly rejected.

While there is some wariness in Washington about what Moscow is up to, the official line is not to be critical in view of public Soviet backing for implementation of the 12 UN resolutions requiring full Iraqi withdrawal from Kuwait. The US has rejected suggestions of ceasefires or pauses in the fighting unless Iraq takes steps to withdraw from Kuwait.

Saddam Hussein: 'co-operating with Moscow'

Israeli rights group condemns curfew

By Hugh Carnegy in Jerusalem

AN Israeli human rights group yesterday sharply criticised a four-week-old curfew on the occupied West Bank and Gaza Strip, saying its effects threatened the "health, livelihood and welfare" of Palestinians.

The authorities say the measure, the longest general curfew since Israel captured the territories in 1967, is to prevent unrest among Palestinians, who mostly support Iraq. It appears to be backed by most Israelis who are angered by reports of Palestinians cheering Iraqi missile strikes on Tel Aviv and who fear attacks by individual Arabs entering Israel.

But a detailed critique issued by B'tselem, which monitors human rights in the occupied territories, said the extension of the curfew suggested it had gone beyond a preventative measure and was being used for collective punishment.

"The curfew cannot go on forever just because there is support among Palestinians for Saddam Hussein," said Ms Daphna Golan, one of the report's authors.

The army says it is gradually easing the curfew; residents of most towns, villages and refugee camps are allowed several hours relief during daylight hours at least once a week, and in places more regularly.

A small number of Palestinians have been allowed to return to work in Israel, where normally more than 100,000 earn their living.

But B'tselem said the curfew had paralysed economic activity in the territories.

It estimated total earnings losses from January 17 to February 10 at more than $130.5m (£66.9m). In the same period exports dropped 95 per cent and meat and fresh vegetable consumption fell 80 per cent and 70 per cent respectively. Local agriculture, which accounts for 35 per cent of GDP in the West Bank and Gaza, had been badly damaged.

The report said 15 Palestinians were killed by army gunfire in January, including five under 16. During the curfew 3,650 people had been arrested.

The group also said authorities had so far distributed only 50,000 gas masks – to protect against a possible Iraqi chemical attack – to the 1.7m-strong Palestinian population.

The Financial Times (Europe) Ltd Published by the Financial Times (Europe) Ltd., Frankfurt Branch, (Guiollettstrasse 54, 6000 Frankfurt-am-Main 1; Telephone 069-75980; Fax 069-722677; Telex 416193 represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, R.A.F. McClean, G.T.S. Damer, A.C. Miller, D.E.P. Palmer, London. Printer: Frankfurter Societäts-Druckerei-GmbH, Frankfurt/Main. Responsible editor: Richard Lambert, Financial Times, Number One Southwark Bridge, London SE1 9HL. The Financial Times Ltd, 1991.

Registered office: Number One, Southwark Bridge, London SE1 9HL. Company incorporated under the laws of England and Wales. Chairman: D.E.P. Palmer. Main shareholder: The Financial Times Limited, Publishing director: B. Hugo, 168 Rue de Rivoli, 75044 Paris Cedex 01. Tel: (01) 4297 0621; Fax: (01) 4297 0629. Editor: Richard Lambert. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, 59100 Roubaix Cedex 1. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.

Financial Times (Scandinavia) Ostergade 44, DK-1100 Copenhagen-K, Denmark. Telephone (33) 13 44 41. Fax (33) 935335.

MIDDLE EAST IN CRISIS

Financial officials and central bankers will try to act as calming influence

Markets braced for war turbulence

By Stephen Fidler and Richard Mooney in London and Martin Dickson in New York

FINANCIAL authorities around the world are bracing themselves for the stock, bond and currency market turmoil that would inevitably follow an outbreak of war in the Gulf.

But finance officials and central bankers acknowledge that their ability to calm turbulence in a global financial market-place is severely limited. Some also question the desirability of large-scale official interference with market movements, since it potentially inhibits natural market corrections.

In meetings in New York last week, senior finance officials from the Group of Seven industrial countries discussed, among other things, what action might be necessary in the financial markets during war. They were preparing the ground for a long-planned gathering of G7 finance ministers and central bankers in the same city in a week's time.

In the weeks ahead their brief will be to avoid panic, which can be self-generating. If fought, the Gulf war would be the first conducted in a world of highly inter-dependent financial markets, large capital flows and almost instantaneous information transfers.

As they are unable to predict the outcome of fighting, or the reaction of financial markets, officials say that highly specific plans are inappropriate.

The obvious result of a war would be for higher oil prices to batter both bond and stock markets. Bond markets would suffer from worries about inflation and about consequences for financing prolonged conflict. In certain currencies, bonds could benefit from a flight of investors to safety.

Stock markets would initially react adversely to the prospect for deeper recession in many economies, including the US, and weaker growth elsewhere. But, as one central banker pointed out, such are the uncertainties that if economies geared up for a long war, shares could benefit.

Providing the allied campaign does not go badly wrong, the dollar is expected to see inward flows of flight capital while the D-Mark and yen are likely to suffer. The D-Mark would be further undermined by turmoil in the Soviet Union.

Sterling might benefit from a vestigial status as a petro-currency.

The main worry for the authorities would be that adverse developments – such as Iraqi missiles hitting Saudi oil installations – could shatter financial confidence, which in some quarters, such as the US banking industry, is already fragile.

Perversely, sudden unexpected peace might bring its own problems: a surging D-Mark would probably lead to strains in the European Monetary System.

Central banks are in daily contact over co-operation in the currency market; their weapons would be interest rate changes, intervention and the ability to direct or influence banks. But their capacity to halt trading, for example, in the foreign exchange market should it become necessary, must be doubtful.

However, stock and futures markets around the world already have so-called "circuit-breaker" mechanisms to halt trading if market movements become excessive.

Wall Street has been drawing up contingency plans to cope with huge surges in trading volume and extreme price volatility, ranging from temporary trading halts to complete closure of some exchanges.

The Securities and Exchange Commission has powers under 1989 legislation to shut down markets it polices, provided the President does not object. However, it seems unlikely to act on these powers.

Mr Richard Breeden, SEC chairman, has made clear in the past that he prefers always to keep markets operating.

At the New York Stock Exchange officials point out there are long-established circuit-breakers – introduced in the wake of the 1987 market crash – to halt trading temporarily. If the market moves by 250 points in a session, trading halts for an hour. If it then moves another 150 points, there is a two-hour halt. Beyond that, action is at the discretion of the authorities.

In London, trading halts are also being considered on the stock exchange, while the London International Financial Futures Exchange has raised margins (downpayments) for all but two contracts by 50 per cent – effective tomorrow – in an attempt to reduce trading volatility.

For the FT-SE contract, which tracks the London stock market, the increase will be 60 per cent and for the contract on German bonds, 25 per cent.

Some of the biggest preparations have been made by the New York Mercantile Exchange, which trades energy-related contracts.

It has drawn up and circulated a "Nymex preparedness manual" and has brought in new rules which, for the first time, set price fluctuation limits on the first two months of crude oil and petroleum products contracts.

If crude moves by $7.50 a barrel or products contracts by 20 cents a gallon, trading will stop for an hour. When trading starts again, a limit on further movement of another $7.50 a barrel will apply during the session.

The Nymex manual stresses, however, its commitment to ensuring that its futures and options markets stay open and provide fair and orderly trading during "the times of greatest stress".

It adds: "Price discovery and risk shifting are important under any market conditions. They will be most critical if the value of crude oil moves to adjust to the news of war or peace, a move predicted by many to be rapid and potentially large.

"Unnecessary interruption or inhibition of Nymex operations could cause dire financial consequences to parties cumulatively hedging billions of dollars worth of energy risk on the exchange."

London's International Petroleum Exchange (IPE) stresses that the need for the risk management facilities provided by the futures markets would be even greater in the volatile trading conditions that would be likely if war broke out.

There could, however, be short breaks if the markets became exceptionally active, to allow traders to update and check trades.

"The IPE does not intend therefore to introduce limit moves nor to cease normal trading should there be extreme price movements," a statement from the exchange said.

"In the event of an exceptionally high level of activity occurring, the IPE executive will declare an active or fast market and certain administrative pauses will be built in."

THE Bank of England is expected to play an important role in keeping the stock market informed of developments in the Gulf, should war grow closer this week, writes Richard Waters. The Bank, the International Stock Exchange and other regulatory authorities have been planning how to regulate London's financial markets in the event of war. It is hoped that financial markets will be able to remain open.

However, if there is an interruption in the flow of price-sensitive information, regulators fear the markets could become swamped by rumours and orderly markets would suffer. In such circumstances, markets could be closed.

The ISE said it had "discussed with the relevant authorities arrangements to make sure that, wherever possible, price-sensitive information is communicated to the market as soon as possible." This is understood to be a reference to the Bank of England, which has taken the lead in laying contingency plans.

Friction at Kuwait investment body

By David Owen

IT IS SCARCELY surprising that these are turbulent times at the Kuwait Investment Office (KIO), the powerful and secretive London-based fund management body which handles a large chunk of the emirate's foreign assets of more than $100bn (£51.8bn).

In a move unprecedented within the organisation, however, 12 KIO executives recently resigned.

Most of them continue to work at the body's drab Cheapside headquarters, and a three-man committee – including Sheikh Salem Abdul-Aziz al-Sabah, the Kuwait central bank governor – has been appointed to look into underlying grievances. According to Sheikh Salem, the committee hopes to conclude its business in about a week.

At one level the wrangling appears to signify, as Sheikh Salem contends, little more than a "misunderstanding" over job descriptions.

But at another, it is seen as emblematic of more longstanding and deep-seated differences in the Kuwaiti power structure. As one observer says: "The KIO almost symbolises Kuwait at the moment, so anything that happens there must have a political undertow."

On an administrative plane, Mr Salah al-Maousherji and his fellow resigners are thought to be dissatisfied both with the structure of the KIO, which manages about $30bn of the emirate's investments, and with the nature of their own responsibilities within it.

"The argument is over whether Mr al-Maousherji should be above or below the office's layer of British investment managers," says a former KIO employee. The 25-year-old organisation is "a bit like a Scottish trust looking after £100m", he adds. "It grew from 30 to 250 people without a change of structure."

The recent death of Mr Trevor Ball, who was with the KIO for more than 20 years, removes perhaps the most powerful of these British investment managers.

"He was a very powerful man simply because of the number of jobs he had collected under him," according to the former employee.

The main protagonists in the political struggle, meanwhile, are the al-Sabah family that has long ruled Kuwait and a grouping of prominent outsiders who want a more meritocratic approach to public appointments and clearer distinctions between the roles and interests of the state and the ruling family.

The KIO has traditionally been closely identified with the al-Sabahs, even though the bulk of the assets it handles are kept in the Reserve Fund for Future Generations (RFFG), which amounts to a lucrative state pension fund. Before the Iraqi invasion, the RFFG was allocated 10 per cent of oil revenues.

This widespread impression of the KIO as something of an al-Sabah fief has survived the creation in 1982 of a Kuwait-based Kuwait Investment Authority (KIA). Technically, the KIO is now merely an arm of this younger body. Formed in response to calls to keep the KIO under a tighter rein, the KIA is identified rather with the outsider faction.

According to insiders, the KIA's influence became increasingly apparent through tightening of internal KIO procedures. "When I went there, secretaries were dealing shares on behalf of their bosses," says a former employee of the office. "That has not happened for some years."

This trend culminated last February in the decision to recall to Kuwait Mr Fouad Jaffar, the long-standing KIO general manager. Mr Jaffar was widely regarded as a symbol of the organisation's autonomy.

Mr al-Maousherji was one of three new executives assigned to the KIO in the immediate aftermath of Mr Jaffar's departure. With a non-al-Sabah family-member – Mr Jasem al-Kharafi – then in the post of finance minister and *de facto* head of the KIA, the balance of power appeared to be tilting.

The continuing strength of the al-Sabahs' hand was made manifest four months later in June, however, when Sheikh Ali Khalifa al-Sabah (previously oil minister) assumed the finance portfolio – formerly the only main government department not headed by a member of the ruling family.

It was ironically underlined by the Iraqi invasion in August: this justified in the starkest possible way the original decision to entrust a large portion of the emirate's wealth to a relatively independent body based in the City of London's safe haven. Many KIA officials now find themselves twiddling their thumbs at KIO headquarters.

It is likely, in sum, that this re-assertion of al-Sabah hegemony, coupled with the fraught atmosphere engendered by the Iraqi occupation, contributed significantly to the frustrations underlying the batch of resignations.

Sheikh Salem, however, characterises accounts of an internal power struggle as exaggerated. "Politicians sometimes play," he says. "But there are resignations in any institution."

Reservists fear for employment rights

By Lisa Wood

CONCERN about the employment rights of reservists called up to serve in the armed forces in the Gulf has been expressed to the government by Mr Norman Willis, general secretary of the Trades Union Congress.

In a letter to Mr Tom King, the defence secretary, Mr Willis said the natural anxieties of reservists and their families should not be exacerbated by fears over such issues as the maintenance of income levels, job security and the protection of pension rights.

Mr Willis said he understood there were statutory provisions which could offer limited protection, particularly in some areas of the public sector.

He asked for clarification on how this was operating and what action the government was taking to ensure that private sector employers also honoured their obligations to the individuals concerned.

The legislation which applies to reservists who either volunteer or are called up to serve in the Armed Forces is the Reserve Forces (Safeguard of Employment) Act 1985. The provisions of the act are limited, according to Incomes Data Services, a research organisation.

It said the act simply required that reservists should not be dismissed before service on account of their actual or potential military obligations and that they should be reinstated once their service ended.

IDS said the act did not cover areas relating to pay, pensions, death in service and other benefits. "Some employers are choosing to supplement reservists' military pay and to preserve all rights under their contracts of employment but it is not obligatory for all employers to do so." It said there was a lack of guidance as to what policy employers should adopt in the matter.

IDS said: "If we accept the principle that reservists should not be disadvantaged by compulsory call – up then there are clear arguments for extension of statutory protection beyond a right to reinstatement. Whether the cost of this should be picked up by the government or employers is a matter for debate."

British soldiers use wire to detonate and clear landmines in a desert excercise

INTERNATIONAL NEWS

South Africa football riot kills 40

Nelson Mandela visits the township of Sebokeng yesterday

AT LEAST 40 stampeding soccer fans were trampled to death yesterday when they tried to escape spectators fighting at a match south-west of Johannesburg, Reuter reports from Johannesburg.

The victims, who included two children, were crushed to death as they tried to squeeze through a jammed stadium exit during a match in Orkney between two of the country's top teams, Kaizer Chiefs and Orlando Pirates.

"The death toll is expected to rise because some of more than 50 spectators who are injured are in a very srious condition," said police spokesman Johan Mostert.

He said trouble erupted towards the end of the match when some of the 20,000 spectators started arguing over the referee's decision to allow a goal by Kaizer Chiefs.

Rival fans were mixed together in the stands in contrast to the normal practice of separating followers of opposing soccer teams, he said. "Parts of the crowd were very unhappy. Bottles started being thrown and fighting started," he added.

Police investigators had been sent to the town 150 kilometres south-west of Johannesburg.

● Police arrested 10 people yesterday in connection with the attack on an African National Congress funeral vigil that killed 35 people, law and order minister Mr Adriaan Vlok said yesterday.

Mr Vlok also declared the Sebokeng black township, where Saturday's pre-dawn attack occurred, an unrest area and imposed an immediate 9pm to 4am curfew. The declaration gives police wider powers to detain people and to put down unrest.

Mr Nelson Mandela led an African National Congress delegation yesterday to Sebokeng, where police and army vehicles patrolled the township roads.

Police said two women were burned to death and five houses set on fire in Sebokeng in apparent revenge attacks for the assault on mourners holding an all-night vigil for a slain ANC activist.

Saturday's massacre also injured dozens of people and drew condemnation from the government, black opposition groups and newspapers.

Bank action threatens Nigerian oil project

By William Keeling in Lagos

A $1bn project between Mobil Nigeria and the state-owned Nigerian National Petroleum Corporation to develop the Oso condensate field in the Niger delta has been placed in doubt.

The London Club of commercial banks has refused permission for the Nigerian government to raise security for project loans. Negotiations to reschedule the government's $6bn debt to the banks are deadlocked.

Without Nigerian government guarantees, the World Bank will be unable to follow through its initial pledge of $150m in project finance. Government guarantees are also necessary for planned export credits from the US, Japan and France totalling $400m.

Oil industry officials report that up to $300m has already been invested in the project. The London Club banks are not themselves contributing to the project's finance, but under existing agreements the Nigerian government must receive the club's permission before it can raise security.

The government told the club the additional revenue that the project will provide for Nigeria would "improve the government's ability to service its external debt, including that to the London Club".

The action of the London Club was described by one oil executive as unexpected and a case of "sour grapes".

The condensate project, to be owned by Mobil (40 per cent) and Nigerian National Petroleum (60 per cent), is part of Nigeria's efforts to diversify its economic base away from the export of crude oil. The Oso field has an estimated 450m barrels of condensate which is excluded from Opec quotas.

Production of 100,000 barrels per day was expected to begin in 1993. A number of commercial banks outside of the London Club have also expressed an interest in the project.

Bankers report that the central attraction is a condition that all the revenue earned from the project is to be paid into offshore Escrow accounts in order to ensure repayment of project loans.

The project is expected to earn Nigeria in excess of $5bn over the next 21 years, with half the income generated in the first six years.

Cape Verde holds first multi-party elections

CAPE Verdeans yesterday voted in the first multi-party elections in Portuguese-speaking Africa since independence 15 years ago, Reuter reports from Praia.

Both the PAICV which has ruled the arid Atlantic archipelago since breaking free in 1975 and the opposition MPD (Movement for Democracy) predicted they could win most of the 79 parliamentary seats.

The elections marked the start of a shift to political pluralism in Cape Verde and Portugal's four other former African colonies which set up Marxist states in 1975 after long independence struggles.

A slight hitch accompanied the opening of polls in the capital Praia when some islanders found they were not on the list of people registered to vote. About a dozen foreign parliamentary observers are present to ensure the vote is fair.

Diplomats said the electorate of 160,000 could reject the PAICV (African Party for the Independence of Cape Verde) in both this vote and the presidential election set for February 17.

Greek soccer violence leaves youth dead

A 16-year-old boy was killed yesterday and two people were slightly injured in clashes between fans during a Greek first division soccer match, police said, Reuter reports from Athens.

They said a flare hit George Panayotou outside Nea Philadelphia stadium and he died as he was taken to hospital. Police used tear gas to disperse fans of AEK and Olympiakos who clashed after the referee dismissed an AEK defender.

Brazilian mayors die in jet crash

A LEAR jet crashed in the Brazilian state of Minas Gerais killing five people, including the mayors of two small cities, according to local newspapers, Reuter reports from Rio de Janeiro. The plane was on route from Brasilia when it crashed on Friday outside Belo Horizonte, about 430 km north west of Rio.

Noriega drugs trial postponed

By Henry Hamman in Miami

THE trial of ousted Panamanian leader General Manuel Antonio Noriega on drug-trafficking charges, scheduled to begin later this month, has been delayed until June 24 in Miami.

The delay was announced on Friday by federal District Judge William Hoeveler during an unusual pre-trial hearing at which Gen Noriega's lawyers questioned prosecutors about possible misconduct by the government in preparing the case against the general.

Two prosecutors, Mr Michael Sullivan and Mr Myles Malman, were asked about subpoenas they issued for recordings of Gen Noriega's prison telephone calls. The subpoenas, issued over seven months last year, were framed to avoid giving notice to the defence, a possible violation of rules of procedure.

The existence of the recordings came to light when the Cable News Network broadcast portions of them in defiance of a court order.

Among the subpoenaed conversations were some between Gen Noriega and his defence team.

Such conversations are normally considered privileged, and the defence is trying to show that the prosecution's access to these conversations violated Gen Noriega's rights to a fair trial.

Mr Malman and Mr Sullivan testified that they used screening procedures to avoid exposure to privileged conversations.

The defence has also raised questions about the use of a former Noriega aide, José Blandon, to evaluate the tapes. Mr Blandon has become a suspect in the investigation about the leaking of the tapes to Cable News Network. Mr Blandon is scheduled to testify on Tuesday.

Judge Hoeveler has also moved to settle the question of whether Gen Noriega's current legal team will remain on the job for the trial. The lawyers have not yet been paid for their work.

Gen Noriega says he has no money since all his bank accounts have been frozen. Judge Hoeveler told the defence they must say on January 25 whether they will remain on the case.

Soares ahead in Portugal poll

By Patrick Blum in Lisbon

MR Mario Soares looked set to win a second five-year term as Portugal's president in yesterday's presidential elections, without the need for a second round of voting next month.

Latest opinion polls gave Mr Soares, a founding member and former leader of the Portuguese Socialist party, an absolute majority with up to 65 per cent of the vote, against 16 per cent for Mr Basilio Horta, the conservative candidate and his nearest rival.

Mr Carlos Carvalhas, the communist challenger, had about 10 per cent of the vote. Mr Carvalhas, a Communist member of the European Parliament, has kept above the fray and won more support than expected for a campaign that has been straightforward and free of aggressive rhetoric.

Although there has been little real doubt that Mr Soares's re-election was in the balance, the campaign was marked by unedifying and bitter personal attacks against him, mainly from Mr Horta. Most commentators believe this diminished the stature of the two main candidates and devalued the election.

Mr Soares, who shed his Socialist party ties after his election in 1986, has brushed off most of the criticism. He has run a polished if uninspiring campaign whose main themes have been unity and stability.

The real winner from yesterday's contest, although he was not a candidate, is likely to be Mr Anibal Cavaco Silva, the prime minister, who convinced his centre-right Social Democratic party not to field a candidate against Mr Soares on the grounds that "cohabitation" between the social democratic government and the socialist president worked well.

Since he became president in 1986, Mr Soares has presented himself as above ordinary party politics, contributing to his undoubted popularity. By not fielding a candidate against him, the PSD has avoided the possibility of a damaging defeat in the run-up to general elections, which must be held by October.

Mr Cavaco Silva, whose absolute majority in parliament appeared threatened only a few months ago, can now look forward more optimistically to the general election. By contrast, the presidential election campaign will have done nothing to help the Socialists despite their hopes to use the campaign as a platform to attack the Government.

Peking tries fence mending with Paris

By William Dawkins in Paris

CHINA today stages its first official visit to France since the Chinese government's violent crackdown on pro-democracy activists in June 1989, the latest sign in a gradual improvement in relations between the two countries.

Zou Jiahua, deputy prime minister responsible for planning, will be meeting Mr Michel Rocard, the French prime minister, and three other members of the government. Only a year ago, France cancelled the sale of six light frigates to Taiwain after strong protests from the Chinese government.

Relations now seem to be on the mend, following France's decision last month to unfreeze official lines of credit blocked after the Tiananmen Square massacre, and an agreement under which Citroën will assemble its latest model car in China.

The only potential irritant in this visit is last week's French trade mission to Taiwan, led by Mr Roger Fauroux, French industry minister.

Overall French exports and imports to and from China rose from $120m in 1988 to $144m (£74.6m) in 1989, according to the Organisation for Economic Co-operation and Development. That, however, is still less than 1 per cent of France's overall trade.

WORLD ECONOMIC INDICATORS

FOREIGN EXCHANGE RESERVES (US$m)

	Nov.'90	Oct.'90	Sep.'90	Nov.'89
Japan	69,429	69,799	68,102	78,005
W. Germany	62,320	61,094	59,670	54,814
Italy	61,689	66,066	66,422	42,110
UK	33,010	33,050	32,951	31,191
Netherlands	16,228	16,337	15,877	14,940
	Oct.'90	Sep.'90	Aug.'90	Oct.'89
US	51,850	49,414	48,174	41,552
France	31,579	29,264	26,010	22,117

Source: IMF

Lithuanian crackdown appears to be in defiance of Federation Council's orders

Gorbachev's role called into question

By Quentin Peel in Moscow

YESTERDAY'S violent military action in Lithuania, amounting to a virtual coup d'état against the republican government, appears to have been taken in direct defiance of the orders of President Mikhail Gorbachev's Federation Council, now the highest executive authority in the Soviet Union.

Yet democrats, radicals and many of the nationalist leaders in the Baltic republics are convinced the Soviet leader must have known about the operation and given it his blessing.

They believe it was his determination to impose effective martial law on the three Baltic republics, beginning with Lithuania, which precipitated the resignation of Mr Eduard Shevardnadze, the foreign minister, just before Christmas.

On the other hand, some leading participants at Saturday's crucial meeting of the Federation Council, which involved the presidents and premiers of most of the Soviet republics, fear Mr Gorbachev may not control the actions of his military commanders in the rebellious regions.

"We can only come to one conclusion," Mr Dainis Ivans, vice-president of the Latvian parliament, said yesterday. "Either Gorbachev is lying, which I believe, or he is not in control of the situation. I don't believe that."

Mr Edgar Savisaar, Estonia's prime minister, feared the contrary. "Gorbachev was very worried about the situation, and said he needs further information about it," he said. It seemed that "the conservatives and the army" were trying to pressure him into imposing presidential rule.

"Lately there has been a tendency for people to say one thing in Moscow, but what really happens on the spot is quite different. I am afraid it is a very dangerous tendency, because the Ministry of Defence, and the headquarters, are losing touch with the army on the spot, and the colonels and majors are taking over," Mr Savisaar added.

Others dismiss the idea that Mr Gorbachev was not in complete control of the operations of his military commanders, who have repeatedly insisted in recent months that their job is to defend the constitution – and the unity of the country – but not to take political decisions.

Mr Mikhail Poltoranin, for example, the Russian information minister and close ally of Mr Boris Yeltsin, the Russian federation president, told the Reuters news agency: "Nothing is done without his approval. Haven't the bandages fallen from your western eyes yet?"

It is also open to doubt that the military commanders, whether in Moscow or in the Baltic republics, know or care about the distinction between political and constitutional action, especially when the whole Soviet constitution is up for renegotiation.

Another key question is whether Mr Gorbachev has been getting accurate information from the Baltics.

He has certainly never seemed to appreciate the real depth of nationalist sentiment there, above all in Lithuania, where a steady 70 per cent of the population declare themselves consistently in favour of outright independence.

The Soviet leader, in contrast, always insists their nationalist leaders are unrepresentative political opportunists, in flagrant contradiction to all known opinion polls.

The official media in Moscow has been more dishonest in its reporting of the Baltic republics in recent months than over any other issue, with the bias becoming hysterical in recent days. Thus the official line voiced by the Tass news agency, the Soviet television and all leading Communist party papers has been that there is a real popular backlash against the nationalist assemblies.

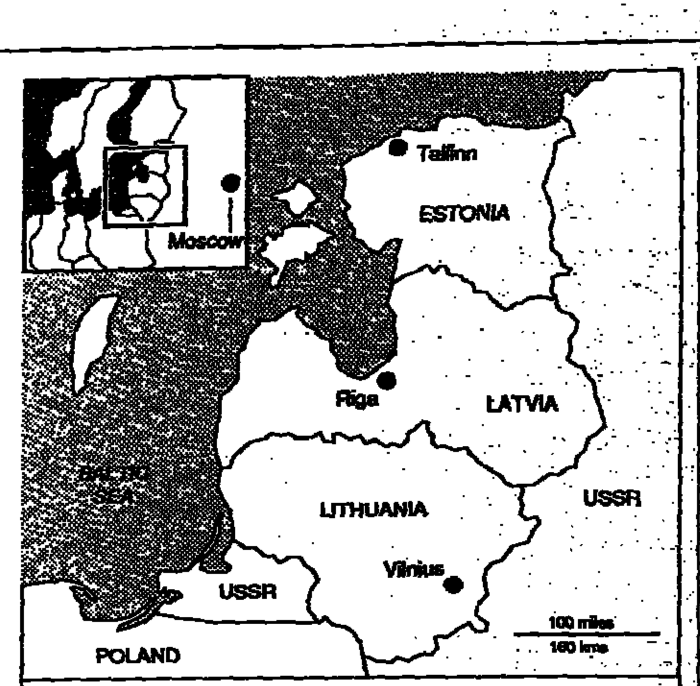
The truth is that in every case that backlash has been clearly orchestrated, and it represents little more than Russian-speakers and hardline conservative communists.

The lies reached a crescendo this week when Mr Rafik Nishanov, a leading Gorbachev adviser and chairman of the Soviet of Nationalities, claimed there were 60,000 demonstrators on the streets of Vilnius denouncing the Lithuanian assembly, and 10,000 Lithuanians. The reality was perhaps 5,000 of the former, probably less than half the number of Lithuanian demonstrators.

Mr Boris Pugo, the interior minister, apparently gave a similarly distorted account at the Saturday meeting of the Federation Council, and Mr Gorbachev was reportedly alarmed and surprised when a majority of the republican leaders rejected his evidence.

"The facts he gave were just the opposite of what is going on," Mr Savisaar said. "He tried to diminish the role of the army and gave a picture as if the Lithuanians were battling each other."

"I am glad that Boris Yeltsin and representatives of other republics did not support him, and told him he was ambiguous and inaccurate."



	Population	Ethnic composition
Estonia	1.57m	Estonians 61%, Russians 30%
Latvia	2.68m	Letts 52%, Russians 34%
Lithuania	3.69m	Lithuanians 80%, Russians 8.6%

The question remains whether the Soviet leader is being deliberately misled by conservative advisers, including the army high command, or whether he is equally party to a cynical misinformation campaign designed to justify repressive action against the elected parliaments.

The coming days must show whether the Soviet leader is still in command of his empire or not.

German state premier resigns

By David Goodhart in Bonn

MR Lothar Späth, one of Germany's best-known politicians, has resigned as premier of the rich southern state of Baden-Württemberg, following press reports of family holidays and other perks paid for by local companies.

Mr Späth, a technocrat of the liberal wing of the ruling Christian Democratic party, has been leader of his state for 12 years, during which time he has consolidated its reputation as one of the most economically dynamic areas of the country. According to a recent poll he was German business's most popular politician.

Relations between industry and the state government in Stuttgart are close and often regarded as a model by other states trying to attract industry.

Mr Späth spent much of his time promoting local industry – including Daimler-Benz, Bosch and SEL – on trips around the world.

But trips of another kind, apparently paid for by local companies, have led to his downfall. The rumbles began at the end of last year when it was reported on local TV that Mr Späth's family took a yachting holiday in the Aegean with Mr Helmut Lohr, then head of SEL, which was paid for by the company.

Mr Lohr is currently facing charges concerning tax irregularities.

Since then several more allegations have emerged. Last night Mr Späth admitted he might have behaved slightly foolishly but denied that business gifts had influenced him in any way. He claimed he was the victim of a "politically motivated campaign".

In mid-1989 Mr Späth was openly talked of as a possible successor to the then unpopular Chancellor Helmut Kohl. But the liberal wing of the party did not move against Mr Kohl and by the end of that year the chancellor had undermined their influence and Mr Späth was voted off the CDU party executive.

Nonetheless, even after Mr Kohl's decisive election victory last December many commentators speculated that in the event of serious economic difficulties in east Germany and growing unpopularity of the Bonn government Mr Kohl might be forced to resign to make way for a technocrat like Mr Späth.

● In view of the precarious world situation, the coalition parties in Bonn are determined to form a government by the end of the week after nearly one and a half months of talks over a new programme.

Yesterday it was decided to raise child benefit and to introduce a carbon dioxide tax. At the end of last week agreement was reached on raising DM35bn (£12.1bn) mainly through a 2.5 percentage point increase in unemployment insurance – which is needed to keep the public sector deficit at about DM150bn.

Crackdown puts summit at risk, Moscow warned

By Our Foreign Staff

THE US, European Community and other countries yesterday condemned the Soviet crackdown in Lithuania where 13 people were reported killed and 110 wounded when Soviet troops stormed the republic's broadcasting station.

The intervention could put at risk the improvement in superpower relations and next month's US-Soviet summit in Moscow. It might also push the EC into reconsidering its offer of aid, officials said.

Mr James Baker, US secretary of state, said the use of force contradicted President Mikhail Gorbachev's basic reformist principles of perestroika, glasnost and democratisation. Partnership between the US and Soviet Union was impossible in the absence of shared values, he said.

High-ranking Nato officials held an emergency meeting in Brussels to discuss the Red Army's action and the European Community strongly condemned the "bloody events".

EC foreign ministers will hold an emergency meeting in Brussels today to discuss the intervention. The session was announced by officials in Luxembourg, which holds the rotating EC presidency.

Earlier yesterday the EC condemned the Kremlin's military action in rebel Lithuania and demanded an explanation from Moscow.

Belgium said the EC might reconsider its promise of aid to the Soviet Union because of the crackdown. "We must explain clearly to the Soviet Union that our aid is conditional," Mr Mark Eyskens, the foreign minister, told Belgian television. "We have a means of pressure," he said, adding that the aid programme could be reviewed.

Events in Lithuania caused dismay and anxiety in Germany where Mr Gorbachev's reform policies have traditionally found its strongest European backer.

The widespread sympathy for Mr Gorbachev and his country's people – exemplified by the DM150m-plus raised in the past month for emergency supplies for the Soviet Union – is sure to decline.

Chancellor Helmut Kohl sent a private message to Mr Gorbachev expressing his concern.

Mr Hans-Dietrich Genscher, German foreign minister, and his French counterpart, Mr Roland Dumas, sent an appeal to Mr Gorbachev to cease using force in Lithuania and condemned "this blow against democracy and human rights".

Although the US may not wish to take precipitate action until the Gulf crisis is resolved, comments by Mr Baker and other US officials suggest the US will review the modest agreements on economic and political co-operation.

More seriously, the US Congress seems likely to defer consideration of the recently signed Conventional Forces in Europe Treaty drastically cutting east and west arms and soldiers in the central zone.

Senior US officials insisted yesterday that Washington had sent several stern messages to Moscow warning about the repercussions of a crackdown on legitimate political dissent and underlining long-standing US policy of not recognising the annexation of the Baltic republics in the Soviet Union.

Lithuanians attempt to stop a tank from crushing a fellow demonstrator during a Soviet assault on the radio-television station in Vilnius early yesterday morning

However, the crackdown in Vilnius came just 24 hours after President Gorbachev telephoned President George Bush, raising questions about the degree to which the Soviet leader may have warned Mr Bush about the use of force, using general terms such the need for "policing".

Mr Stasys Lozoraitis, the Lithuanian chargé d'affaires in Washington, said he understood Mr Bush had expressed gratitude to Mr Gorbachev for Soviet support in the Gulf crisis and avoided a detailed discussion of the crisis in Lithuania. It is possible that Mr Gorbachev took this as a signal that the US would not react strongly to the use of force, Mr Lozoraitis said.

Czechoslovakia, where a democracy movement in 1968 was smashed by Soviet-led intervention, has also condemned the use of force and said it could leave the Warsaw Pact as a result.

Powers of next Soviet premier to be truncated

By Quentin Peel

PRESIDENT Mikhail Gorbachev has served notice that his future prime minister will be in charge of the economy and little else, according to the short list of four names he submitted at the weekend.

The favourite is Mr Valentin Pavlov, the current minister of finance, who is seen as an enlightened bureaucrat but in no way a radical reformer.

None of the four names presented by Mr Gorbachev to Saturday's meeting of the Federation Council, the Soviet Union's highest executive authority, is noted as a real reformer, further confirming the abandonment by the Soviet leader of plans for rapid and radical steps towards a market economy.

Instead, two of the four are technocrats from outside the party hierarchy, while two are both top party officials and leading supporters of the massive military-industrial establishment.

Mr Pavlov's name has been mooted for some weeks as a possible successor to Mr Nikolai Ryzhkov, the current premier, now recovering from a heart attack in hospital. His weakness is that he has presided over an explosion in money supply during the past year, and failed to make any real impact on the huge budget deficit. He has loyally followed the "administrative" reform policy of his government.

Mr Pavlov, a former chairman of the state price committee – a key element of the central planning system – and before that deputy finance minister, is seen as a compromise candidate. "He will be a reformer if that is what he is told, and a conservative if that is what he is told," according to one former colleague.

The other technocrat is Mr Vladimir Shcherbakov, the youthful chairman of the state labour committee, which makes him really the employment minister. Although one of the more enlightened members of the previous government, he has not particularly distinguished himself with innovative thinking.

The other two candidates are closer to both the Communist party and the defence industry. Mr Yuri Maslyukov, the current chairman of the Gosplan planning body, is a full member of the politburo, and probably the second most powerful man in the Ryzhkov team. Mr Oleg Baklanov, the central committee secretary in charge of the defence industry, would be the most conservative choice.

The Federation Council, reeling from its debate on the crisis in Lithuania, instructed Mr Gorbachev to choose just one name from the list by Monday or Tuesday.

Valentin Pavlov: not reformer

Albanian group to act on human rights

A DOZEN leading Albanian intellectuals and university professors have founded the country's first pressure group on human rights issues, the Albanian Human Rights Forum, writes Kerin Hope in Tirana.

Members of the organisation said yesterday their first campaign would be to collect details on political detainees and prison conditions in Albania, whose communist government has frequently been criticised for restricting human rights.

"We will gather information from around the country which will be made available to international organisations such as Amnesty International," said Mr Ramzi Lani, one of the forum's founders.

Although the forum was set up under new legislation permitting political parties, it will not take an active political role or run candidates in the February 10 election, he said.

But six founder members of the forum who belong to the ruling Albanian Party of Labour will resign from the party to "be able to work effectively for the release of political prisoners," he said.

Last week the government announced the release of more than 200 political prisoners but it is not clear how many remain in jail, Mr Besnik Mustafaj, another founder of the group, said.

He put the figure "in the high hundreds".

● Albania has applied to join the International Monetary Fund and the World Bank, the official Albanian news agency ATA said, Reuter reports from Vienna.

Davy secures $200m US contract

By Charles Leadbeater, Industrial Editor

DAVY, the British engineering group, has strengthened its position in the US steel production equipment market by winning a contract for a $200m (£103.6m) galvanising line for a leading steel plant.

Davy Pittsburgh, the Davy group's main US subsidiary, has won the contract to supply the line to Pro-Tec Coating Company, a joint venture between USS, the steel division of USX, and Kobe Steel of Japan. The deal is one of the largest single contracts awarded in recent months.

Davy Pittsburgh will design and construct a hot dip galvanising facility in Leipsic, Ohio. The line will mainly serve the US motor industry.

Galvanised steel is becoming increasingly commonplace in the motor industry, especially with the growth of Japanese car manufacturing plants in the US.

The order from the joint-venture comes after a $100m order in October to build two galvanising lines for Bethlehem Steel at its plants at Burns Harbor, Indiana and Sparrows Point, Maryland.

The orders indicate that investment in the US steel industry remains strong, in spite of a sharp weakening in steel prices in recent months and falling demand from the construction and automotive industries.

Davy, which has been hit by a series of disastrous contracts in the UK oil industry for offshore and onshore work, is currently in talks with several companies over the possible disposal of peripheral divisions.

Unravelling the enigma of Japan's investment

Guy de Jonquières on a book analysing the nation's business expansion in Europe

THE SURGE in Japanese direct investment on both sides of the Atlantic in the past decade has stirred anguished political controversy, which has at times overshadowed long-standing bilateral disputes with Japan over imbalances in visible trade.

The arguments have exposed ambivalent attitudes in host economies. In the US, while states compete eagerly to woo new Japanese plants, congressmen have been demanding stricter controls to stem the recent wave of Japanese acquisitions.

In Europe, equally sharp divisions have emerged over the "transplants" established in Britain by Japanese carmakers. These assembly facilities, which are championed by the UK government, are resented by France and Italy, which have sought to shackle them with local-content requirements and output restrictions.

Yet for all the heated debate, surprisingly little is known for sure about Japanese foreign direct investment (FDI). Why does it happen? How is it related to trade? What is its impact on host economies? And what policies should host countries adopt?

These issues are given sharper focus in a forthcoming book by two economists at the Royal Institute of International Affairs, which analyses the recent expansion of the Japanese business presence in Europe.

As the authors point out, western reactions to Japanese FDI are out of proportion to its economic importance. In the European Community it totalled a mere $45bn (£23.3bn) at the end of 1989, and inflows during that year represented only 6 per cent of all the FDI received by EC countries.

Furthermore, the official value of Japanese investments to date in EC manufacturing – the book's main concern and also the source of most controversy – is less than $8bn, of which less than half is in the politically sensitive sectors of electronics and cars.

Two explanations are offered for western reactions.

The first is the rapid growth of Japanese FDI in Europe, which doubled in value roughly every two years in the 1980s.

That mirrors the explosion in FDI outflows by the world's five largest industrialised countries, which increased seven-fold between 1983 and 1989 – much faster than world trade.

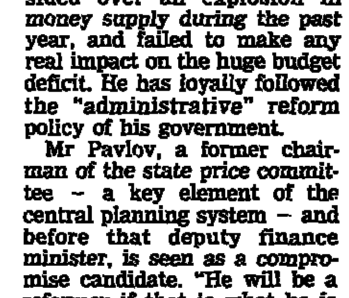
The second reason is that direct investments in greenfield sites, the source of the greatest political controversy in Europe, are highest in those industries where Japanese companies enjoy their keenest competitive edge, and hence most likely to have an impact on European rivals.

In Britain and Germany, which have attracted a large share of Japanese manufacturing investments, two-thirds are in greenfield sites.

These findings support the book's central thesis that the overriding reason why Japanese companies come to Europe is to extend and deepen their market presence in activities where they possess clear comparative advantage and have already built up substantial exports.

In sectors where Japanese companies are less competitive, many prefer to enter European markets through alliances and joint ventures with local partners.

The book argues that although trade protection may have influenced the timing of Japanese companies' decisions to invest in Europe, it is not the root cause: "Their technological and managerial assets enable them to produce behind trade barriers that the EC has erected against them, but they would still come to Europe even if no such barriers existed."



THE EUROPEAN MARKET

The authors claim the prospect of European integration after 1992 has done little to stimulate Japanese direct investment in Europe. They also dismiss the argument, popular among some Brussels policy-makers, that encouraging or coercing Japanese companies to produce more in Europe will lead them to cut their exports from Japan.

Historically, FDI has grown broadly in line with exports. Although the precise links between the two are hard to establish, increased FDI may even lead to higher exports: for example of components for local assembly.

Furthermore, the book argues that far from displacing exports, direct investment enables Japanese companies to shift production of maturing products to Europe, releasing resources at home which are then used to develop fresh products and technologies for export.

The pattern of Japanese investments in Europe, unlike those by US companies, has been skewed by national trade barriers. However, because many Japanese manufacturers' priority is to expand market access, they have often located in countries where they already have substantial sales, where a network of local suppliers exists and where local competition is relatively weak.

That is particularly true of greenfield sites and helps to explain why all three leading Japanese car companies have chosen to build "transplants" in Britain. The role of financial incentives in attracting such investments is found to be insignificant.

Although Japanese companies have sought in the past to take advantage of low wages and overcome national trade barriers by locating in countries on the peripheries of Europe, such as Ireland and Spain, their investments have increasingly tended to cluster in wealthier markets nearer the centre.

In 1989, 61 per cent of Japanese affiliates in Europe were located in Britain, France and Germany, up from 47 per cent five years earlier. This trend is expected to continue, as Japanese components suppliers set up in Europe to serve Japanese-owned assembly plants.

The book judges that Japanese FDI has had a generally positive impact on host economies, supplementing the benefits of trade and stimulating the transfer of technology and managerial skills.

It finds no evidence to support accusations that host countries' employment and trade suffer.

The authors argue that national or EC efforts to increase the flow of Japanese inward investments by subjecting them to "performance requirements", such as local content rules, are likely to be self-defeating.

Such rules could be enforced only if supported by high tariffs, which would raise product prices and invite trade retaliation. Equally, any bilateral move by the EC to require Japan to observe strict reciprocity on inward investments would prove impossible to administer.

In the near-term, the rate of Japanese FDI outflow is likely to be affected by higher interest rates, the fall in the Tokyo stockmarket, the growth of recessionary pressures worldwide and the Gulf crisis.

However, such a setback would probably be only a pause in a continuing international diversification of assets driven by technological advances. Japanese industry's quest for further increases in competitiveness and structural shifts in its domestic economy.

The evolution of Japanese direct investment in Europe: death of a transistor salesman. By Stephen Thomsen and Phedon Nicolaides. To be published in March by Harvester-Wheatsheaf, Wolsey House, Wolsey Road, Hemel Hempstead, Herts. HP2 4SS. Tel: 0442 231900.

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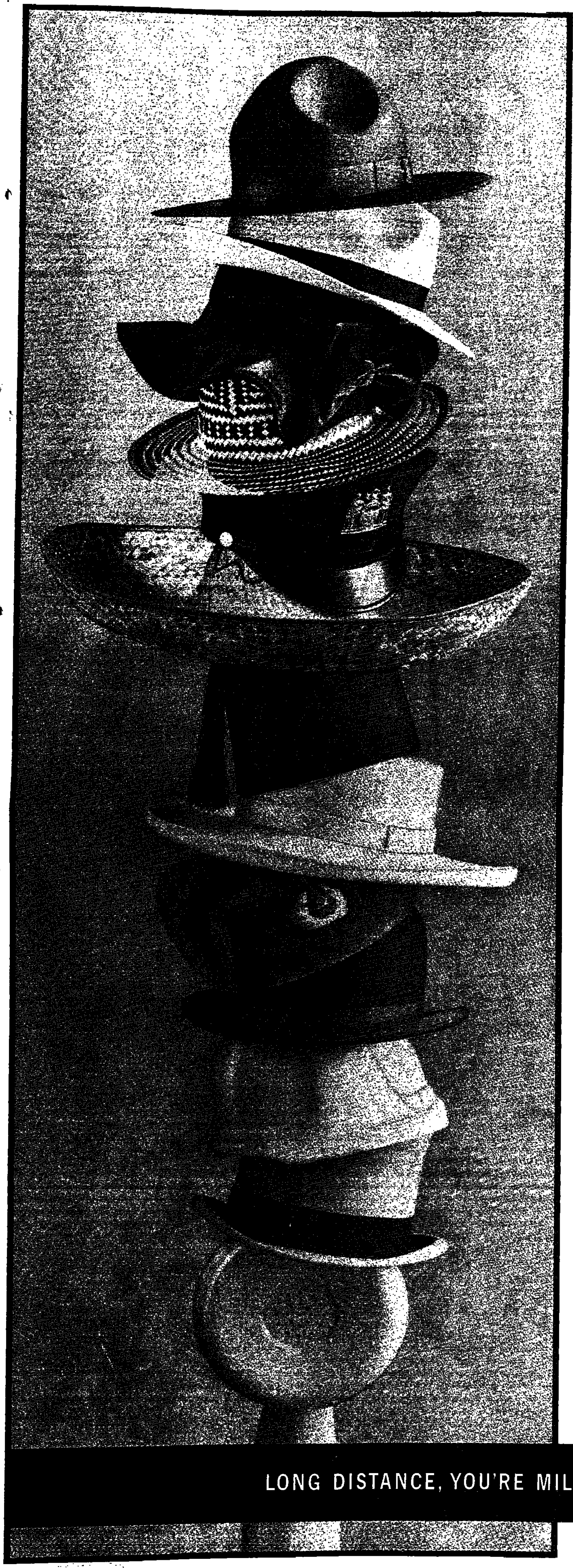

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UK NEWS

Generators seek bigger portion of power market

By Juliet Sychrava

THE TWO electricity generating companies have asked Professor Stephen Littlechild, the industry's regulator, to allow them to compete to supply a further 40.5 per cent of the large industrial consumer market for electricity.

National Power wants access to a further 22.5 per cent and PowerGen to a further 18 per cent of the total market.

The generators are allowed now to supply a maximum of only 12.5 per cent each of electricity demand in the Manweb and South Wales Electricity regions, 10 per cent each in the Yorkshire Electricity and Northern Electric areas, and 7.5 per cent each in the other eight regions.

National Power has asked Prof Littlechild to lift the limit to 15 per cent in the Manweb, South Wales, Northern, and Yorkshire regions, and to 9 per cent in the East Midlands, Midlands, Norweb, South Western and London regions.

PowerGen has asked for a limit of 15 per cent in the Manweb, South Wales and Northern areas, a 13.5 per cent limit in the Yorkshire region, and a 9 per cent limit in the East Midlands, Midlands, and Norweb areas.

Their petition has aroused a strong response from a number of the regional electricity companies in areas that would be affected. "They are trying to keep us out of the generating business," one chairman said.

Some regional companies believe that by capturing more large industrial customers, National Power and PowerGen hope to prevent the 12 regional companies from investing in independent electricity generation projects, which typically need to be backed by offtake contracts with large customers if they are to secure financing.

The two generators said, however, that the proposed increases would simply allow them more flexibility to meet growing demand, primarily from existing customers.

The confrontation between generators and regional companies comes as both are in the process of negotiating new contracts with each other, and with large industrial customers taking more than 1 megawatt who are free to choose their supplier.

Prof Littlechild, who is expected to announce his response to the two generators' appeal on Friday, said he realised that this was a concern among the regional companies, and would be consulting them before making a decision.

Mr Colin Webster, National Power's commercial director, said it was simply common sense to raise the limits, which were last reviewed a year ago.

"They were set in relation to the business we were doing then," he said. "It is nonsense if the demand from customers who are with us now grows, and we can't meet it because we would be exceeding the limit."

There had to be some dynamism in the limits, he said, to reflect the natural growth in demand from the generators' existing customers.

CBI/FT DISTRIBUTIVE TRADES SURVEY

Retail sector deeply pessimistic about sales outlook

By Peter Marsh, Economics Staff

BRITAIN'S retailers had a decidedly unmerry Christmas. Hopes expressed by many shops and stores of a pre-Christmas sales spurt failed to materialise and they are deeply gloomy about the immediate business outlook.

Those are some of the conclusions from the latest Confederation of British Industry/Financial Times distributive trades survey, published today.

The survey polled 522 companies in retailing, wholesaling and motor trades between December 7 1990 and January 3 this year. The answers provide a barometer of opinion in an industry that has seen sales prospects deteriorate since the summer as the government's high-interest-rate policy has begun to bite.

The slowdown in consumer demand has affected in particular many shops and stores. The retailing trade saw virtually flat year-on-year growth in sales volumes in both November and December. With its pre-Christmas sales campaigns having failed to show much impact, the sector is more depressed about future sales than at any time since the CBI/FT survey began in 1983.

Of the 278 retailers in the survey, 34 per cent said they expected lower sales during January compared with the same time last year, while 28 per cent said they anticipated higher sales. That gives a negative balance of 6 per cent, the first time since the survey started that retailers have expressed an overall view that year-on-year sales volumes were about to show a decline.

In last month's CBI/FT survey the retailers were far more optimistic. A balance of 21 per cent said they expected higher sales in December than last year.

But, as this month's survey shows, a balance of only 2 per cent found that their sales in December were higher than at the same point in 1989.

The growing signs of the recession since last summer have similarly affected wholesalers. As for the motor trade, it noticed the reduction in demand from consumers earlier than other parts of the distribution sector and suffered falling year-on-year sales throughout 1990.

One crumb of comfort for motor dealers is that their expectations regarding future sales appear to have stabilised, albeit at gloomy levels.

Many of the groups in the survey are reporting high levels of stocks, indicating that consumers can expect bargains over the coming weeks as prices are cut to clear unsold goods.

Of all the 522 companies in the survey, 44 per cent reported sales volumes in December lower than the same period a year ago, while only 27 per cent said sales were higher.

That led to a negative balance of 17 per cent of companies reporting reduced sales, compared with a negative balance of 9 per cent at the time of the previous survey last month.

The speed with which the recession has affected the distribution industry is shown in the accompanying charts. As recently as last September a balance of 17 per cent of companies in the survey had reported a year-on-year sales increase. As for sales expectations, a balance of 16 per cent of all the distribution companies in the survey said they thought sales in January would be lower than in the same month in 1990. In December the comparable negative balance was 12 per cent.

The effect on suppliers to the distribution industry – consisting mainly of manufacturers and companies in other areas of services – is beginning to look catastrophic.

A balance of 35 per cent of the companies in the survey said they ordered lower volumes of goods from suppliers last month than in December 1989, compared with just 8 per cent in the previous survey.

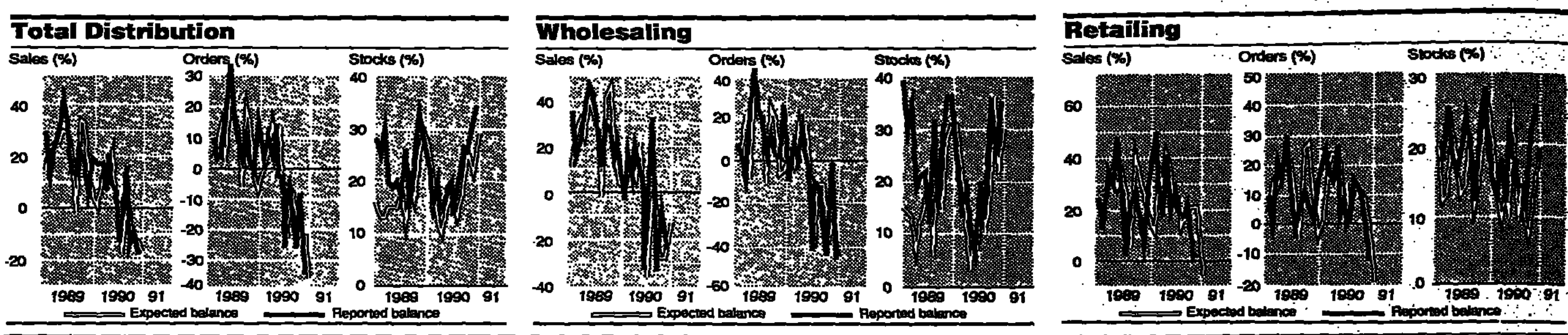
A balance of 37 per cent of companies expects to be reducing orders in January, compared with the same period last year. The comparable figure in the last survey was 24 per cent.

THE NORTH'S engineering and steel industries, which have so far been cushioned against recession in southern England by export sales, have started reporting a rapid falling away of trade, the Yorkshire and Humberside regional council of the Confederation of British Industry has reported, writes Ian Hamilton Fazey.

The council said business confidence had declined sharply since last autumn, with members now predicting that the recession will be deeper and longer than many expected before Christmas. Although the situation has not yet reached the seriousness of the 1980-81 recession, many business people are very concerned," Mr Brian Bigley, CBI regional director, said.

"The construction and textiles industries have been in trouble for some time but even the brewers, whose trade is normally reasonably recession-proof, are seeing declining demand."

He predicted an increase in corporate failures and redundancies and urged companies not to make unilateral decisions to extend payment periods to creditors to 90 days.



Few bills paid within a quarter

By Andrew Jack

THREE QUARTERS of British businesses have to wait three months or more before their bills are paid, says a Gallup poll of 250 finance directors released today.

The poll found that 76 per cent of companies are not paid by their customers until an average of at least 90 days after invoicing. Only 14 per cent receive their money within one month.

Seventy per cent of the directors believe late payment is making the recession worse, and 96 per cent say it adds to their business difficulties.

However, although a quarter said invoices should be paid within 30 days, only 12 per cent of companies paid their own suppliers within a month.

"The message at a time of recession is that cash flow, if not king, should be very high up the list of priorities," said Mr Richard Pearson, national chairman of Pannell Kerr Forster, the accountants who commissioned the survey.

"Companies – especially small family-run firms – need to adopt a much tougher attitude towards credit control and take active measures to ensure they are paid what they are owed on time," he said.

The survey showed that only 36 per cent of companies take steps such as discounts on early payment or interest charges on late bills. Yet 93 per cent of those charging interest did not lose customers and were glad they introduced the system.

Nearly 60 per cent of businesses want the government to introduce legislation on late payment that would force debtors to pay interest above base rates on outstanding debts after an agreed period. The UK is the only EC country that lacks such a law, said Mr Pearson.

Two co-op societies plan £500m merger

By Andrew Jack

TWO OF Britain's highest-turnover co-operatives will merge in April to create the largest independent retail society in the country, if their members accept their boards' recommendations.

The directors of United Co-operatives, based in Stoke-on-Trent, Staffs, and Norwest Society, based in Wythenshawe, Manchester, agreed on Friday night to combine into a single society to be called United Norwest.

The merger would create a group controlling 8.5 per cent of the trade of the UK co-operative movement.

It would manage nearly 400 trading units in the north of England, including 29 superstores, eight department stores, 115 convenience stores, 100 supermarkets, 39 travel outlets and 27 pharmacies.

Combined turnover of the two societies for the year to January 31 1990 is £519m, giving a "net" profit equivalent to pre-tax profits of £7.1m. Total employment is about 10,000 staff.

Members of Norwest, the seventh-largest society in the country, will vote on the plan to "transfer their engagements" to United in a series of regional meetings to be held during March and April.

There are several thousand active voting members in Norwest, said Mr Iain Williamson, its spokesman, yesterday.

"It certainly won't be a rubber-stamp job."

The merger is significant not only because of the size of the resulting group but also because both societies appear to be profitable.

Many societies have been forced to combine over the past few years to avoid financial collapse.

It reflects the recent trend towards a smaller number of large regional societies within the co-operative movement. From more than 1,000 societies at the turn of the century, the number today has contracted to about 80.

Mr Harry Lovatt, chief executive of United, said the merger would bring economies of scale, particularly in marketing.

There are no plans for compulsory redundancies, closure of outlets or a reduction in the level of community involvement that characterises the societies.

If the merger is approved, Mr Lovatt will become joint chief executive of United Norwest with his counterpart at Norwest, Mr Rod Aspray.

United Co-Operatives is already the third-largest society in the country by sales. It is also the largest independent regional retailer, since the Co-operative Wholesale Society (CWS) is nationally based, and the Co-operative Retail Society is owned by CWS.

Business failures peak in Ulster

By Our Belfast Correspondent

BUSINESS FAILURES in Northern Ireland reached a record level last year, according to figures published today by Dun and Bradstreet, the business information company.

The number of companies that collapsed increased by 15 per cent, from 362 in 1989 to 416; company bankruptcies increased by 21.2 per cent to 234; and company liquidations rose by 7.7 per cent to 182.

The figures identify the rate of failure in Northern Ireland as the lowest in the UK, so that the pattern of decline in business fortunes suggests a ripple effect spreading outwards from the south-east of England to the UK's periphery.

Mr Gareth McWilliams, Dun & Bradstreet's manager for Northern Ireland, said that the figures were a disturbing indication of the state of the province's economy, although more business start-ups would inevitably produce more failures.

Small companies were suffering most. "They have fewer financial reserves and are the first to feel the pinch during a regime of high interest rates. If the high cost of borrowing continues, we would expect to see a stronger increase in liquidations during 1991 as the larger companies begin to feel the effects."

There were marked differences between industrial and commercial-sector performance, with the construction industry faring relatively well.

The worst increases in company bankruptcies were in private manufacturing concerns. In retailing, the number was unchanged.

Liquidations increased significantly in the investment and property businesses and in retailing. There were fewer collapses in the catering and pub trades.

FT SATELLITE MONITOR

BSkyB television reaches 1.28m homes

By Alice Rawsthorn

NEARLY ONE in every 15 British households now receives the BSkyB satellite television service, according to the latest survey by the FT Satellite Monitor.

The survey, which is compiled monthly for the FT by Continental Research, estimates that 75,000 new satellite dishes were installed in December, the first full month of sales since the merger between Sky and BSB to form BSkyB.

That means that 1.28m British homes received satellite television by the end of 1990, nearly three times as many as at the end of 1989.

BSkyB seems set to increase its penetration rapidly over the next few years, according to Continental Research. It predicts that the number of dish installations will nearly double to 2.3m – more than 10 per cent of all households – by the end of this year.

Continental Research expects to see continued growth in the mid 1990s. It predicts that 6.6m households, or nearly one in three of all homes, will have installed satellite dishes by the end of 1994.

The merger between Sky and BSB has been politically and commercially controversial. BSkyB, in which Pearson, owner of the Financial Times, has a stake, is being sued by suppliers and retailers of the BSB Squarial dishes. There has also been an outcry over the political implications of having one, rather than two, satellite systems in the UK.

However, the survey suggests that the public's reaction to the merger has been positive. Nearly half of all the householders planning to install a dish over the next few months said they had been "more inclined" to install them since the merger.

Levitt creditors meetings

By Richard Lapper

UNSECURED creditors of the Levitt Group, the financial services group that collapsed last month, will get little or none of their money back.

At least 300 creditors, as well as a few employees and investors, are expected to attend two meetings (one for Levitt Group Holdings, the other for Levitt Group, the main trading company) scheduled for today.

Most can expect to leave the meetings disappointed. KPMG Peat Marwick McLintock, the liquidators, said yesterday: "We think there will be little or nothing for the unsecured creditors."

Levitt Group's liabilities are in the region of £40m. According to Mr Tim Roberts, of KPMG, Levitt's assets amount to "between £250,000 and £500,000". Among them are a box at Arsenal football club said to be worth £100,000.

Six directors of Levitt Group are likely to be present although Mr Roger Levitt, the group's chief executive, will stay away.

Head teachers fear move to central control

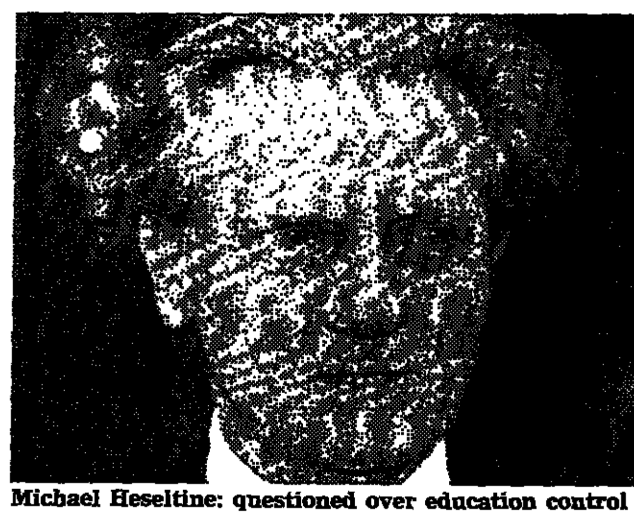
By Norma Cohen, Education Correspondent

REMOVAL of education funding from council budgets in a reform of the community charge, or poll tax, will lead to greater government control over education policy, the National Association of Head Teachers has warned.

In a letter to Mr Michael Heseltine, environment secretary, Mr David Hart, NAHT general secretary, says: "If central government were to take responsibility for all education spending, it is therefore inconceivable that it should not also want to take control of the 'delivery' of education by the education service."

The NAHT, whose members run 80 per cent of the schools in England and Wales, has asked Mr Heseltine to consider what the future management of the education service would be like under central government control, if such a move is an option in his revision of the community charge.

The union did not give its view on such management but asked for a thorough review of the role of local authorities in the administration of education.



Michael Heseltine: questioned over education control

In the letter, also sent to Mr Kenneth Clarke, education secretary, the NAHT says that new laws, such as those requiring local education authorities to spend 85 per cent of their budgets on schools in their district, are changing radically the role of LEAs.

Other new laws, such as delegated budgets under local management of schools and the ability of schools to opt out of local authority control, have also reshaped the role of the LEA.

Mr Hart, in his letter, says there is at present a mismatch between funding and management, with the LEAs arguing that they do not receive enough money from the government to provide an adequate service and the government complaining that it has too little control over what goes on in schools.

If central government were to take over education completely, it would have to provide "a proper and appropriate substitute" for current LEA administration services, says Mr Hart. Solutions might include the formation of consortia to administer services such as payroll, contracts and maintenance.

Schools would also have to feel able to buy services they need on a competitive basis in terms of price and quality.

Central government would have to protect crucial areas of the service such as special educational needs, small schools and home to school transport – all of which are now provided by LEAs.

LEGAL COLUMN

Who to dismiss to survive the recession

By Robert Rice, Legal Correspondent

THE EXTENT to which law firms are affected by the recession will depend on a number of factors: how long it lasts; the spread of their practices; and, not least, how they manage their businesses through a period of sharply reduced or negative growth.

Law firms are not recession-proof, although it is likely that some firms will be less affected than others. Firms with strong insolvency practices have never been busier, for example, and there is the (as yet unproven) theory within the profession that in recessionary times what little work there is tends to float to the top firms.

But with the property market depressed and showing little sign of immediate recovery and many corporate clients reporting sharply lower profits, it is small wonder that many firms are already feeling a cool draught around the midriff.

Some, in an attempt to maintain partnership profits, have cut costs. Several firms (including D. J. Freeman & Co, McKenna & Co and Richards Butler) with strong commercial property and construction practices have reacted to the downturn in the property market by making redundant assistant solicitors in their property departments.

The Young Solicitors Group of the Law Society reports a sixfold increase in calls to its redundancy helpline since it was set up in December 1989 – a far cry from the heady days of the late 1980s.

In these straitened times, some cost-cutting is inevitable. The secret to managing through a recession and emerging on the other side relatively unscathed, however, lies not so much in identifying what needs to be done as in going about it in the right way.

There is an irresistible logic about the way the axe has been wielded by Freemans, McKennas and Richards Butler; there is less income from property work, therefore cutting costs by making property lawyers redundant is the answer. It may turn out in the end that that was the right thing to do. On the other hand, life is rarely that simple.

According to management consultants Alan Hodgart and David Temporal, such linear thinking can be dangerous. In a paper on managing through a recession, written specifically for law firms, they argue that linear thinking is almost always short-term.

They say: "It sees a direct cause and effect (cut costs, profits up); it overlooks the context in which actions take place; it misses the possibility that an action, such as cutting costs, may have a diverse range of effects which, in total, may lead to the opposite of what was intended (i.e., profits still fall despite cost cuts)."

It is important to realise that cutting costs to sustain profits means that the cuts required will be a larger percentage of costs than of revenue. If, for example, fee income falls by 20 per cent from £10m to £8m, then profits of, say, £2.5m can be sustained only if costs also fall by £2m or 27 per cent.

The problem is magnified if certain costs are fixed in the short term and so cannot be cut – property costs may be fixed for the life of a lease, for example. If, using the same figures, 25 per cent of the total £7.5m costs are fixed, then the £2m reduction needed to maintain profits will have to come from the remaining £5.625m variable costs. In other words, variable costs will have to be cut by 36 per cent – a significant figure.

Faced with the task of making cuts of this size, management attention invariably focuses on staff costs – generally the biggest single item in costs and usually the most flexible. Here again, linear thinking can drive the logic of focusing on fee earners, Hodgart and Temporal argue. Less work means lower revenues, therefore fewer fee earners are needed.

Dismissing fee earners generally means firing assistant solicitors, they say, and greater cost savings will come from removing the more highly paid. Carrying linear thinking to its extreme, a cost-cutting exercise of this type should begin with senior assistants.

If £10m was being generated by 75 fee earners, including 20 partners, then £8m can be generated by 60 fee earners – a reduction of 15 or 27 per cent in the 55 non-partner fee earners. However, by focusing on the highest-paid fee earners it may be possible to achieve the same cut from 10 redundancies.

That approach can have dangerous consequences. The senior assistant's work will have to be taken over by someone, probably a partner, but the work is unlikely to support a partner's hourly charging rate. Partners will have less time to spend on matters such as marketing – essential given the fall in revenues.

A "succession gap" will appear by removing people who would have provided the next generation of partners, and when things pick up again good senior assistants will be hard to find. The firm may spend time "under-partnered" or it may be tempted to promote people into partnership too early. All those factors will hold back growth and development.

A better approach, Hodgart and Temporal say, is to identify those who are over-promoted and those who, although competent at their present level, show no ability to rise to the next level.

It follows from that that the selection of redundancies should not simply follow the areas of work that are most in decline. Good people whom a firm wants to retain should be encouraged to be flexible about where they work.

It is here that Freemans, McKennas and Richards Butler may have come unstuck. Just because property work is down does not necessarily mean that property lawyers should be made redundant. If they are all high-calibre solicitors, they should moved to replace people of lesser calibre who can be made redundant.

Furthermore, firms should not overlook partners in this performance appraisal, they say. Nothing is worse for the morale of a firm for it to dismiss assistants but retain partners whose performance is no better or even worse.

It may be that all necessary cost savings can be made by dismissing poor performers. If not, Hodgart and Temporal warn against increasing the number of redundancies among fee earners beyond those identified in this way.

Other areas can be cut. There may be savings that can be achieved from cuts in support staff. Again, the answer is not to dismiss a proportion to get the economics right but to identify poor performers and analyse the key functions of support staff to see if there are ways in which the same volume of work can be done by fewer people.

Cost savings can almost certainly also be achieved through cuts in other items of expenditure. The simple approach is again to cut a percentage across the board or to put an axe through an area that has few defenders, such as marketing or training. But again that can be counterproductive. Abandoning marketing and training might be disastrous.

Each item of expenditure should be reviewed to identify the variable amount and the contribution it makes to the achievement of the firm's strategic plans. Cuts should then be negotiated with the people responsible for budgetary control.

Marketing must also be maintained and, if anything, increased. It is nonsense to say that "revenue is falling because the economy is in recession so the volume of work is out of our control", say Hodgart and Temporal. In a recession, aggressive marketing can reap large rewards.

Retaining good people, spending more time and money on ensuring they remain committed to the firm, spending more time and money on marketing and paring costs without reducing the effectiveness of key activities will all work to ensure that the firm comes through a recession in a healthy condition.

If, at the end of the day, after all practicable cost savings have been made, profits still fall, firms should not be tempted to jeopardise their long-term strategic planning. Accept a drop in profits, say Hodgart and Temporal, and look on it as an investment in the future.

Many people suffer in a recession and partners may have to accept some suffering as well.

Managing Through a Recession: Shutting the Stable Door Before the Horse Bolts. Hodgart Temporal & Co, Bechtel House, 245 Hammersmith Rd, London W6 8DP.

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UK NEWS

Budgetary constraints may cost jobs at BBC

By Richard Tomkins

HEAVY JOB cuts loom at the BBC as a result of a government decision to lift the television licence fee by less than the rate of inflation.

Mr Kenneth Baker, the home secretary, is expected to announce today that the existing fee of £71 for a one-year colour television licence will rise by about £6 from April.

This will give the BBC an increase in its budget of less than 8.5 per cent - inflation is running at about 9.4 per cent.

The BBC said yesterday that production costs were rising more rapidly than inflation, so an increase in the licence fee below the inflation rate would represent a double squeeze on its finances.

The implication is that the corporation will have to cut programming and make heavy inroads into its staff of 25,000 in order to meet the targets.

Last year, Mrs Margaret Thatcher, then prime minister, ordered a study of the corporation's finances to see whether the increase in the fee could be slowed without jeopardising the BBC's role.

The study has been carried out by accountancy firm Price Waterhouse and is due to be published today. It is expected to suggest that considerable scope exists for savings through staff cuts and better management.

Mr Michael Checkland, the BBC director general, has already announced plans to save £75m a year by 1993, with the initial loss of 1,400 jobs. The Price Waterhouse report is believed to go further.

Allegations of inefficiency within the BBC were reinforced last week when Sir John Harvey-Jones, the former ICI chairman criticised the corporation's management on a BBC programme.

He said the corporation needed to reduce staff costs by a third and should halve its top management, abolishing posts from the deputy director-general downwards.

Among services which could come under threat are one or more of the five national radio networks; regional television services; local radio stations; and educational broadcasting.

Recession drains retail confidence

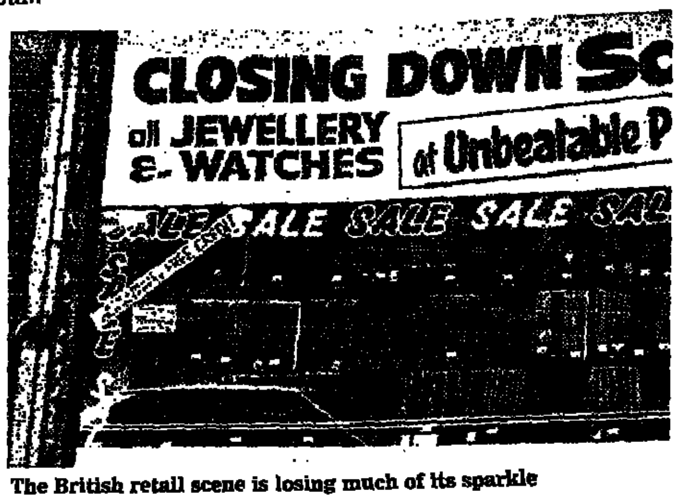
By Peter Marsh, Economics Staff

THE RECESSION flattened UK expectations of healthy pre-Christmas sales and has pushed retailers' confidence to its lowest point for at least eight years, says a survey published today.

This conclusion from the latest Confederation of British Industry/Financial Times distributive trades survey provides further evidence of an easing in inflationary pressures. It comes amid rising unemployment and reduced investment in many sectors of British industry.

The weak state of the UK economy, which would be exacerbated by a war in the Gulf, is expected to constrain Mr Norman Lamont, the chancellor of the exchequer, as he prepares the UK budget, due in March. Mr Lamont discussed options for this over the weekend at a meeting with other Treasury ministers.

The budget is thought likely to involve the UK government borrowing about £7bn in 1991-92, after four years of running a surplus. The borrowing would be needed to make up for shortfalls in tax revenues caused by the recession. It could also pay for increased public spending, particularly in social security benefits for people affected by the economic decline.



The British retail scene is losing much of its sparkle

Later today, the bleak state of retailing is likely to be underlined by provisional government figures on the changes in retail sales volumes between November and December. These are thought to have shown a 0.2 per cent fall on a seasonally adjusted basis, the third consecutive monthly fall.

The indications of weak demand in Britain's high streets are uniformly bad for the distribution and retail industry, which accounts for about 10 per cent of UK output, but may also foreshadow reductions in the rate of rise in retail prices.

The annual rate of rise in retail prices, fell by 0.3 per cent in December to about 9.4 per cent, government statistics on Friday are expected to show. Mr Lamont believes it will drop to about 5 per cent by the end of the year.

The CBI/FT survey showed that the pre-Christmas sales increases expected by many retailers failed to materialise. The poor December sales figures were made all the more worrying for many retailers by their efforts last month - such as opening on Sundays and bringing forward price-cutting campaigns - to attract custom.

According to the survey, depression among retailers regarding the business outlook is deeper than at any time since the survey began eight years ago.

Mr James May, director general of the Retail Consortium, a retail industry trade group, said expectations in the industry were flat. "February and March will be bleak," he said.

More gloomy news on the economy is likely on Thursday, when the government is expected to announce that roughly 200,000 people have lost their jobs since unemployment began to rise last spring. The seasonally adjusted jobless number is thought to have risen by about 45,000 in December to around 1.8m.

Unemployment is likely to continue rising throughout 1991, to 2m by the spring and up to 2.3m by December, according to analysts.

Unmerry Christmas, Page 6

Companies face 20% electricity price rise

By David Thomas, *Resources Editor*

BRITAIN'S biggest energy users are bracing themselves for electricity price increases of more than 20 per cent, following the government's rejection of their pleas for special help on the eve of the electricity industry's privatisation.

Mr John Wakeham, energy secretary, has written to the Energy Intensive Users' Group rejecting its request to continue a special scheme to protect much of British industry from large price increases resulting from electricity privatisation.

The group speaks for the very largest consumers of electricity. Its member companies, accounting for almost 15 per cent of electricity consumption in Britain, are drawn from the chemicals, steel, cement, paper and board, glass, artificial fibres and non-ferrous metals industries.

The special scheme pegged the increases for large users to the inflation rate for one year. Introduced last year after intense lobbying by industry, it is due to run out in April.

One large company, which asked not to be named, said it was now expecting electricity price increases of up to 25 per cent. "It's quite outrageous and will damage our international competitiveness," the company said.

Big industrial customers are particularly incensed because they have recently been warned of significant increases in other components of their electricity bill.

Some companies have been told of plans to boost transmission charges by about 15 per cent by the National Grid Company, the privatised monopoly which runs the national transmission network in England and Wales. They also expect the regional electricity companies to take advantage of the regulatory formulae governing price increases to increase their distribution charges by more than inflation. Transmission and distribution charges together typically account for about 20 per cent of large-users' electricity bills.

In addition, the Government has announced that the subsidy for nuclear power, known as the nuclear levy, would increase to 11 per cent of electricity bills next year, against previous expectations.

Industrial electricity customers - including the mass of users not covered by the special one-year scheme - will not know the final shape of their bills from next April until they receive competing bids from suppliers. These bids are expected to be made shortly.

All sites with a maximum demand of more than one megawatt can now shop around for electricity from the competing suppliers - principally the 12 regional electricity companies privatised last month and National Power and PowerGen, two generating companies in England and Wales due to be sold next month.

However, most business users now expect bids significantly higher than those they received last year, the first time the newly liberalised electricity market operated.

Big users are also dismayed that some companies will be prevented from shopping around for alternative supplies by the regulatory rules limiting the amount of business which National Power and PowerGen can capture from each regional electricity company.

They are backing the generators' requests to Professor Stephen Littlechild, the industry's regulator, to lift these limits.

"Raising the limits would at least ease the position somewhat for large industrial customers," said one company.

Generators seek bigger portion, Page 6

MANAGEMENT

Taking a hard look at developing soft skills

Charles Leadbeater points to the potential gains being made from intermingling manufacturing and service disciplines

Manufacturing is going soft. No longer is it simply a machinery dominated and labour-intensive process of turning raw materials into products at the lowest possible cost. It is becoming increasingly reliant on the skills, disciplines and management approaches traditionally associated with the service sector.

A well-organised factory is the foundation for a successful manufacturing company. But to make manufacturing efficient, and – just as important – to create high value-added products with a competitive edge, companies have to develop "soft" skills.

A raft of such skills – design, marketing, software, customer service – most often associated with services, is now being applied by successful manufacturers in sectors ranging from traditional engineering to high-tech industries such as computers.

TI, the engineering group, estimates that half its income from manufacturing seals comes from the after-sales services it offers customers – for instance, installing and monitoring the seals on site. ICL, the British computer group, was an attractive prize for Fujitsu, the Japanese company which recently acquired it, mainly because of its skills in software and systems integration rather than hardware.

This convergence of manufacturing and service skills challenges the way that manufacturing companies are managed. Companies will not succeed if they just focus on cutting production costs. They must also examine how to improve their potential for earning revenue by designing, marketing, selling and servicing high-quality products. The importance of soft skills will affect the way manufacturers recruit, train and reward staff.

Services and manufacturing have become increasingly intermingled because manufacturers have expanded into services to escape their traditional and declining markets. As a result companies are often described as manufacturers because their roots were in steel, shipbuilding or engineering, while in reality much of their income comes from services.

GKN, founded on steel, is dependent for about 40 per cent of its revenues from waste disposal, food vending and a novel system for handling pallets used in warehouses.

Ten years ago manufacturing accounted for about 70 per cent of the activities within John Brown, the company which in the 19th century became a leading steel and shipbuilding group.

This year manufacturing will account for just 25 per cent of turnover; most revenues come from services – for example, contracting on large projects such as petrochemical plants. Allan Gormly, John Brown's managing director, says: "We want to concentrate on bringing together knowledge, service and technology rather than making things."

As production techniques have developed so the line between service and manufacturing jobs has become ever more blurred. With the spread of computer-controlled machinery more shop-floor jobs have grown more like computer-related service sector jobs.

The atmosphere in the computer room which controls the hot-strip rolling mill at British Steel's Port Talbot plant is not unlike a signal control room in London Underground. At Pirelli's cable factory at Aberdare, south Wales, almost three-quarters of the instructions shop-floor workers receive come from computers.

Computer numerically-controlled machines are replacing welding guns and wrenches on the engineering factory shop-floor, just as pencils and ledgers have been replaced by computers in the offices of insurance companies.

Technology is changing manufacturing in other ways. The first revolution, the "hard" task to drive down costs, will only be successful if a "soft" revolution is also launched. Many of the aims of flexible, automated manufacturing cannot be achieved without a growing reliance on the skills of the service sector.

One of the main aims of computerised manufacturing systems is to cut the amount of time it takes to make a product, thereby reducing the capital tied up in work-in-progress and allowing companies to respond much more swiftly to changes in demand.

The best British factories have made tremendous strides in this direction. NCR's Dundee plant has cut manufacturing lead-times for automatic teller machines for banks from 15 days to two, while Philips Components cut the lead-time for a TV component from 19 hours to two.

At the best factories products are made only if there is an order for them. As soon as they are made they are shipped to their buyers.

By shortening the time between production and consumption a manufactured good is becoming more like a service. The usual definition of a service is a product, such as advice from a doctor to a patient, which has to be consumed when it is produced, and not later as might happen with a manufactured product.

This definition is what the very best manufacturers, such as the Japanese car companies, are aiming at: products are only worth making if they are consumed almost immediately they are made.

Speedy, efficient manufacturing lines are not just driven by the power of new technology but by soft skills as well.

Some of the very best manufacturing systems in the UK, such as ICL's computer plants in the north-west, rely on soft skills such as design and logistics as much as on the hard skills of engineering.

ICL's plants excel in buying and ordering the right components, in the right order, from outside suppliers. The company does not make its products but rather assembles efficiently components supplied by sub-contractors. The importance of buying and logistics – planning the orderly flow of components – has become so important at Cadbury-Schweppes, the confectionery group, that it has created a board post for a logistics director.

At IBM's British plants another soft skill, design, has played a central role in making manufacturing more efficient. Since 1983 IBM has been developing closer links between its design and manufacturing departments to make sure that products are designed with fewer, simpler parts, which can be put together more easily.

Design for manufacture has brought IBM impressive cost savings. One part of the IBM 4720 printer was redesigned, thus reducing the manufacturing cost from $5.95 to $1.81 and its assembly time from three minutes to a matter of seconds.

Design and logistics are soft skills which are important inside the factory, but manufacturers are becoming increasingly dependent on soft skills outside the factory as well, particularly after-sales service.

At TI, after-sales service has become increasingly crucial in building customer loyalty. Chris Lewinton, TI's chairman and chief executive, estimates that 50 per cent of the price it charges for one of its seals covers the after-sales service, installation and monitoring that TI does once the seal is in operation at a chemical or oil plant.

Customers do not want to purchase a product in isolation, they also want a supplier to provide them with back-up, training and expertise once the gadget is installed. TI is looking for engineers who can be rounded executives, capable of marketing and servicing products as well as they engineer them.

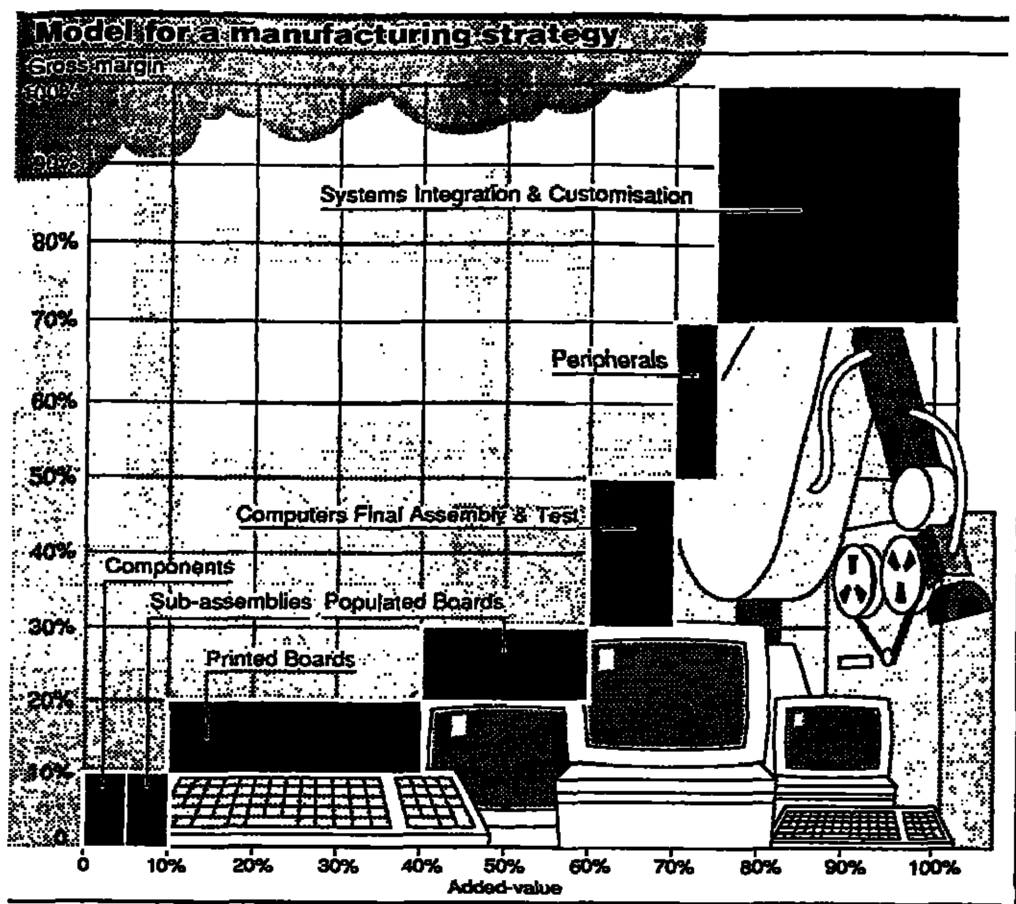
Perhaps the most radical example of the way that manufacturing as a whole can be changed by "soft" skills is the computer industry.

Computer companies exist in an ill-defined area somewhere between manufacturing and services. Leaders in the industry now stress that they provide solutions to customer problems, rather than boxes full of bewildering technical wizardry. Computer users have become increasingly frustrated with the obstacles they face in knitting together systems and software made by different manufacturers. The integration of different systems turns on software, systems integration and after-sales services more than on hardware.

The most striking example of this trend was IBM's recent launch of its new family of mainframe computers. The sales pitch touched on the evolutionary technical developments embedded in the Enterprise System 9000 range.

But IBM was tacitly admitting that raw computing power has become a commodity product where it is difficult for any one manufacturer to gain a decisive competitive edge. Instead it stressed that the machine was designed for customers to solve problems and integrate it with other products.

The line between hard manufacturing skills and soft services skills is increasingly becoming an artificial and arbitrary divide. A successful company will need to be able to blend both skills. A successful economy will need both a healthy manufacturing sector and a thriving service sector.



The illustration, based on a model developed by Groupe Bull, the computer manufacturer, shows how much services – particularly systems integration and customisation in this instance – enhance overall product value

Challenges to the right to manage

By John Gapper

Managers of the British workforce substantially advanced their boundaries of influence during the 1980s. It was a decade of management power unbound in industries which had previously been constrained by strict working practices agreements, and union ties. The "right to manage" was a little-challenged idea, outside set-piece industrial confrontations such as the 1984-85 miners' strike.

The idea of worker participation in management had a particularly poor decade. The 1970s debate on industrial democracy faded amid the view that union participation in management led to inefficiency and feather-bedding.

There are signs that this consolidation of management power over work faces a challenge in the 1990s. It is coming externally from both European management practices and legislation, and internally from expectations raised by new management techniques in Britain. Combined, they may lead to new pressures on the "right to manage".

Statutory pressures for worker participation have been renewed by the European Commission with the publication of its draft directive which was descended from the Vredeling directive. Under this companies employing more than 1,000 people and based in more than one EC country would be required to establish works councils. These would have to be consulted on matters such as working practices and organisational change.

Perhaps as significant for many British companies will be the internal challenge created by their own attempts to re-organise the way work is done. Line-managers' right to communicate directly with individual workers and control working practices in the past decade has been accompanied by a set of softer ideas. These have included team-working and consultation through quality circles.

Similar management ideas in the United States have been dubbed "tough love". The implication is that managers relate to workers as parents do to children. They know best how work should be carried out, and retain disciplinary power. Yet they try to help them develop their own ideas and autonomy. They also try to consult them and group them together in teams.

There are clear difficulties in sustaining this approach. One is the internal tension of trying to stimulate individual effort through methods such as performance-related pay, while encouraging teamwork and co-operation. A second is the risk of promising autonomy and control to individuals, and then not delivering it.

A new study* of how worker participation affects productivity in 52 engineering companies suggests that the attempt to tread a middle way between traditional strict control of work, and subdued forms of worker participation may ultimately be ineffective.

The authors conclude that companies adopting a participatory model of management in which workers are consulted in ways consistent with the EC draft directive achieved productivity gains of about 4 per cent. In such companies, group incentives such as profit-sharing influenced workers and encouraged a belief in the legitimacy of decisions. Rotation of jobs in team-working was also effective.

However, companies which dabbled in worker participation achieved worse results. Although they improved productivity through individual performance-related pay, group bonuses had little effect. Job rotation through team-working had a significantly negative effect on productivity.

This is a disturbing result for the model of management control which emerged in the 1980s in Britain. It suggests that limited forms of team-work without a broad acceptance of worker participation may not only raise false hopes, but may damage productivity. If so, there must be doubts about how well this Anglo-American model can survive the coming European challenge.

**Employee Participation, Productivity and the European Company Statute. By John Cable and Nicholas Wilson; UCW Aberystwyth/Bradford University Management Centre*

THE WEEK AHEAD

ECONOMICS

Plenty of gloom besides the Gulf

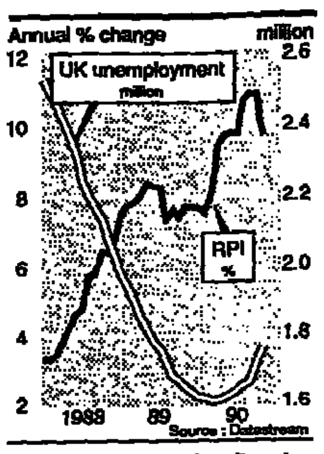
IF ECONOMISTS and financial markets can tear their eyes away from the Gulf crisis this week, they will find that the world is awash with new economic statistics.

Much of the US and British news will be gloomy. The latest US retail sales data tomorrow and industrial production figures on Wednesday are expected to point to further weakness in demand and output.

Similarly, today's provisional report of British retail sales in December and Thursday's labour market report are expected to add to the evidence of recession.

Somewhat improved inflation figures from Britain on Friday may lift the gloom a little.

The consensus of analysts forecasts compiled by MMS International, the financial research company, points to a 9.4 per cent annual increase in the December retail prices index against November's 9.7 per cent rise.



In Germany, the Bundesbank council meets on Thursday amid growing concern about the inflationary implications of the German budget deficit.

It is uncertain whether it would change credit policy ahead of the Group of Seven finance ministers' meeting in New York in seven days time.

Events and statistics, with median market forecasts from MMS international in brackets, include:

Today: UK, December provisional retail sales (down 0.2 per cent), producer input prices (down 0.5 per cent on month, 2.4 per cent on year), producer output prices (up 0.2 per cent on month, 5.7 per cent on year); Bank of England quarterly analysis of bank advances for September to November.

Tomorrow: US, December retail sales (down 0.2 per cent). France, December preliminary consumer price index (month unchanged, up annual 3.4 per cent). Japan, market holiday.

Wednesday: US, December consumer price index (up 0.2 per cent), CPI ex-food and energy (up 0.3 per cent), industrial production (flat), capacity utilisation (80.8 per cent), November business inventories (down 0.3 per cent). Japan, November machinery orders.

Thursday: UK, December public sector borrowing requirement (£1.8bn surplus), labour market statistics including December unemployment (up 50,000), vacancies (down 15,000); November average earnings (up annual 10 per cent). December provisional vehicle production. US, December housing starts (1.1m); weekly money supply figures. Australia, November retail trade (up 0.3 per cent). December unemployment rate (8.4 per cent), employment (down 30,000). Germany, Bundesbank council meeting.

Friday: UK, December RPI (unchanged on month, up annual 9.4 per cent). US, December merchandise trade ($9.5bn deficit). France, November industrial production (up 0.1 per cent on month, 1 per cent on year). Japan, December wholesale price index (up annual 2.1 per cent). Canada, November merchandise trade. During the week: Germany, November wholesale prices (down 0.2 per cent on month). Japan, December money supply, trade balance.

Peter Norman

UK COMPANIES

FORECASTS FOR interim pre-tax profits which Tomkins, the fast-growing industrial conglomerate, will announce on Monday, centre around £30m, against £23.3m in the comparable period. In the half-year to October, Tomkins, whose product range runs from valves to hand-guns, bought Philips Industries, a US building products business, for £335m.

This purchase, which was financed by a rights issue, is expected to lift the interim profits. However, there are concerns that Tomkins has increased its exposure to the US just as that country's economy is going into recession.

First Leisure is likely to please investors with a respectable rise in earnings when it reports annual profits to October on Wednesday. Forecasts centre around profits of £29.5m for the year, up 17 per cent.

The company benefitted from its policy of not making many acquisitions but concentrating on existing businesses and upgrading the quality of its assets.

Mountleigh, the property company, is expected to produce pre-tax profits of about £5m when it reports its interims for the six months to September 30 on Thursday. The profit, which compares with pre-tax profits of £20.4m last year, will be mainly due to the redemption of bonds that were trading at a discount.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
McLeod Russel, New Connaught Rooms, Great Queen Street, W., 10.00
BOARD MEETINGS:
Finals:
Aukett Associates
Burndene Invs.
Interims:
Cantors
Delapak Foods
Ellis & Everard
Excalibur
Fletcher King
London Electricity
Tomkins
Vardy (Reg)
Yorkshire Electricity
■ TOMORROW
COMPANY MEETINGS:
Apollo Metals, The National Motorcycle Museum, Coventry Road, Bickenhill, Solihull, West Midlands, 10.30
Concentric, Penns Hall Hotel, Penns Lane, Sutton Coldfield, 2.30
Kwik Save, Mollington Banastre Hotel, Parkgate Road, Chester, Cheshire, 12.00
Wellcome, Grosvenor House Hotel, Park Lane, W., 11.00
BOARD MEETINGS:
Finals:
Babcock Prebon
Crown Communications
Eurotherm Intl.
Hawtin
Kunick
London & Clydeside Hldgs.
Sheriff Hldgs.
Trilion
Wheway
Interims:
Debenham Tewson & Chinnocks
Howden
Lazard Select Inv. Trust
ML Hldgs.
Nobo
Norweb
■ WEDNESDAY JANUARY 16
COMPANY MEETINGS:
IFICO, 20 Aldermanbury, E.C., 10.00
M. & G. Group, Painters Hall, Little Trinity Lane, E.C., 12.00
MEPC, Centre Point, 103 New Oxford Street, 12.00
Shani, The Marriot Hotel, 10 Grosvenor Square, W., 10.30
BOARD MEETINGS:
Finals:
First Leisure
London Scottish Bank
Plateau Mining
Interims:
Barbour Index
Wyko
■ THURSDAY JANUARY 17
COMPANY MEETINGS:
BOC, The Savoy Hotel, Strand, W., 11.00
Govett Atlantic Inv. Trust, Shackleton House, 4 Battle Bridge Lane, S.E., 12.30
Strata Invs., 3 Finsbury Avenue, E.C., 2.30
BOARD MEETINGS:
Finals:
Anglia Television
Davenport Vernon
GWR
LPA Inds.
Lookers
Witan Inv.
Interims:
Hampson Inds.
Mountleigh
Peel Hldgs.
Stanley Leisure
Symonds Engineering
■ FRIDAY JANUARY 18
BOARD MEETINGS:
Finals:
Group Dev. Capital Trust
St. Andrew Trust
Selective Assets Trust

Company meetings are annual general meetings unless otherwise stated.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
600 Group 1.5p
Bradford & Bingley Bldg. Society Fltg. Rate Nts. 1999 £354.11
Clyde Blowers 7.07p
Elliot (B) 1.25p
Funding 3½% Stk. 99/2004 1.75pc.
GEI Intl. 2.47p
Globe Inv. Tst. 11½% Uns. Ln. Stk. 90/95 5.75pc.
Grampian Television NV A 0.7p
In Shops 0.66p
Marling Industries 1.3p
Multitone Electronics 0.75p
Royal Tst. Govt. Sec. Fund 1.625p
Treasury 13% Stk. 2000 6.5pc.
■ TOMORROW
Agricultural Mortgage Corp. 6¼% Deb. Stk. 92/94 6.125pc.
Do. 5½% Deb. Stk. 93/95 2.75pc.
Ambrit Intl. 9% Cnv. Uns. Ln. Stk. 1995 4½pc.
American Medical Intl. 9⅞% Uns. Ln. Stk. 2011 4$\frac{15}{16}$pc.
BCE 64cts.
BZW Convertible Inv. Tst. 1.5p
Caltyns 6p
Castle Communications 4.5p
Concentric 7.63p
Du Pont O'seas Capital NV 11¼% Gtd. Nts. 1995 5.625pc.
Edinburgh Inv. Tst. 3¾% Deb. Stk. 1998 1⅞pc.
Evode Cnv. Prf. 3.5p
Govett Strategic Inv. Tst. 10⅜% Deb. Stk. 2016 5$\frac{3}{16}$pc.
Hambros 4p
Do. NV 2.1p
Hamilton Oil 2.5cts.
LASMO 9⅝% Prf. 4.8125p
Life Sciences Intl. 8% Prf. 4p
Lucas Industries 10¾% Uns. Ln. Stk. 92/97 5⅜pc.
M. & G. Dividend Fund 15.494p
McKechnie 9.75p
McLeod Russell 3.05p
Morgan (J.P.) 49.5cts.
Motorola 19cts.
Murray Intl. Tst. 3.9% Prf. 1.95p
North Surrey Water 5¼% Deb. Stk. 2⅝pc.
Do. 4¼% Deb. Stk. 2⅛pc.
Do. 4% Deb. Stk. 2pc.
Do. 7¼% Deb. Stk. 91/93 3⅝pc.
Occidental Petroleum 62.5cts.
Owen & Robinson 0.15p
Pacific Gas & Electric 38cts.
Perkins Foods Cnv. Prf. 3.0468p
Quaker Oats 39cts.
Sheafbank Property Tst. 0.65p
Smithkline Beecham 3.4p
Southnews 0.8p
Sweden (Kingdom of) 11% Ln. Stk. 2012 5.5pc.
Treasury 9½% Ln. 1999 4.75pc.
Waddington (John) 3.6p
Witan Inv. 3.4% Prf. 1.7p
Yelverton Invs. 8% Uns. Ln. Stk. 1997 4pc.
■ WEDNESDAY JANUARY 16
Apollo Metals 2p
European Inv. Bank 9% Ln. Stk. 2001 4.5pc.
Fluor 8cts.
Hewlett-Packard 10.5cts.
New Throgmorton Tst. 1983 2p
Northern Indl. Imp. Tst. 15p
Powell Duffryn 6.8p
Property Partnerships 2.45p
Stoddard Sekers Intl. 0.55p
Treasury 8½% Ln. 2007 4.25pc.
Young (H.) 4p
■ THURSDAY JANUARY 17
Abbey National Fltg. Rate Nts. 2000 £351.30
Channel Express 1.2p
City of London PR 1.04p
Futura Hldgs. 0.5p
Kwik Save 8.4p
M. & G. 9.5p
M. & G. Second Dual Tst. 13.11p
MEPC 13.75p
Merrydown Wine 1p
Nationwide Anglia Bldg. Society Fltg. Rate Nts. 1998 £176.12
Scottish & Mercantile Inv. Tst. 1.2p
Do. A NV 1.2p
Shani 2.4p
Smith (James) Estates 1.1p
Treasury 2½% Index-Linked Stk. 2024 £1.6151
Woolwich Bldg. Society Fltg. Rate Nts. 1993 £352.876
■ FRIDAY JANUARY 18
British Inv. Tst. 9.5p
EMAP 1.9p
Echlin 17.5cts.
Elswick 0.22p
Erskine House 2.3p
Fuller, Smith & Turner 2.1p
Govett Atlantic Inv. Tst. 2.3p
Hogg Robinson 2.25p
JS Pathology 1.8p
Jarvis Porter 1.4p
Lees (John J.) 0.75p
Lucas Industries 4.9
Marks & Spencer 2p
Northern Investors 3p
Northern Rock Bldg. Society Fltg. Rate Nts. 1995 £176.44
Quadrant 1.65p
Shanks & McEwan 10.2p
Throgmorton Dual Tst. 1.75p
■ SATURDAY JANUARY 19
Exchequer 9¾% Stk. 1998 4.875pc.
Treasury 2% Index-Linked Stk. 2006 £1.81
■ SUNDAY JANUARY 20
Dewhurst Dent 7% Uns. Ln. Stk. 90/2000 3½pc.

PARLIAMENTARY DIARY

■ TODAY
Commons: Second Reading of the Severn Bridges Bill. Motion on the Caribbean Development Bank Order. Opposed private business.
Lords: Development Board for Rural Wales Bill, Committee. Maintenance Enforcement Bill, Report. Statutory Sick Pay Bill, Committee.
■ TOMORROW
Commons: Debate on the Gulf crisis.
Lords: Debate on the Gulf crisis.
■ WEDNESDAY
Commons: Opposition debate; subject to be announced.
Lords: Debate on the need for a comprehensive environmental strategy in Britain. Question to Government on auction houses.
Select committees: Foreign Affairs — subject, the Gulf crisis. Witness: the Foreign and Commonwealth Secretary (Room 8, 10.30am).
Parliamentary Commissioner for Administration — subect, annual reports for 1989 to 90. Witnesses: East Birmingham Health Authority, Highland Health Board, North East Thames Regional Health Authority (Room 19, 10.45am).
Energy — subject, decommissioning of oil and gas fields. Witness: Assn. of British Independent Oil Exploration Companies (Room 6, 11am).
Education — subject, sport in schools. Witnesses, Central Council for Physical Recreation; Secondary Heads Association (Room 8, 4.15 pm).
Public Accounts — subject, Accommodation for Customs and Excise Investigation Branch. Witnesses: Sir Brian Unwin and Mr A. Acherton and Mr A. Brown (Room 16, 4.15pm).
Transport — subject, British Railfreight. Witnesses: British Railfreight representatives (Room 17, 4.15pm).
Procedure — subject, Documentation required for the consideration of Lords amendments to legislation. Witnesses, Rt Hon John MacGregor MP, Leader of the Commons, Hugh Barclay, Clerk of Public Bills and Eric Hendry, HMSO (Room 6, 5pm).
■ THURSDAY
Commons: Debate on the Ibbs Report on the House of Commons Services. Proceedings on the Census Confidentiality Bill. Opposed private business from 7pm.
Lords: Planning and Compensation Bill, Committee.
■ FRIDAY
Commons: Private Members' Bills.

APPOINTMENTS

Changes at Scottish Widows

■ Mr Mike Ross, a deputy managing director of SCOTTISH WIDOWS since last March, has been promoted to managing director from March 31 this year when Mr John Elder retires for health reasons. Mr Ross has spent his whole career with the company in a variety of roles, including appointed actuary. Mr David Forfar will succeed Mr Ross with responsibility for the actuarial and accountants division. Mr Leslie Robb, group investment manager, is promoted to assistant general manager. Mr David Ritchie, deputy managing director, will take on a wider role as immediate deputy to Mr Ross from April 1.

Scottish Widows Investment Management has appointed Mr Wolf Roller as investment director.

■ Miss M. Glennys Hughes and Mr Charles H. Mavor have been appointed directors of SINGER & FRIEDLANDER. Mr Tom G. Nash and Mr Andrew N.G. Tibbits have been appointed directors of Singer & Friedlander Investment Management.

■ CHARTERHOUSE BANK has appointed Mr Andrew Hawkins as a director in the merger and acquisitions department. He was deputy chief executive at First Technology. Charterhouse Tilney has made the following promotions: to director of investment management, Mr Terry Bird and Mr Nick Roe-Ely; to director, institutional sales and research, Mr Steven Charnock and Mr Kurt Mayer; to assistant director, Mr Chris Walker, Mr Mike Spong, and Mr John Sercold.

■ SWISS RE (UK) has promoted Mr Stephen Riley to deputy general manager, non-life, following his return from a two-year secondment to Swiss Re Zurich. Mr Graham Dimmock leaves to join Employers Re (UK). Mr Alan Cousins becomes a deputy manager when he transfers from the corporate control and planning department to re-establish the marketing services department in the non-life division. These moves are from February 1. Mr Jeremy Hindle has been promoted to senior underwriter, property.

■ Mr Allan Bridgewater, group chief executive of the Norwich Union Insurance Group, has been appointed a non-executive director of RIGGS AP BANK. Formerly owned by the Norwich Union, the bank is now UK subsidiary of The Riggs National Bank, Washington DC.

■ BALFOUR BEATTY CIVIL ENGINEERING, part of BICC Group, has formed its business into three divisions. Mr David G. Fison has been appointed general manager, major products division; Mr Andrew E. Rose becomes general manager, civil construction division; and Mr Tony W. Merricks is made general manager, specialist holdings division.

■ Mr Edward J. Gehrlein has been appointed president and chief operating officer at Bedford Associates Inc, a BRITISH AIRWAYS subsidiary software company based in Norwalk, Connecticut. He was president of System One, a computer reservations system company, and had worked for Trans World Airlines and Pan American World Airways.

■ MEAD COATED BOARD UK has appointed Mr Nicholas Craggs as sales director. He was with H.W. Chapman.

■ Mr Martin Brennan has been appointed senior manager, customer services, at BARCLAYS GLOBAL CUSTODY CENTRE. He was a senior manager in Barclays' electronic banking department, specialising in international cash management.

Senior post at Hawker Siddeley

■ HAWKER SIDDELEY GROUP has appointed Mr Darrell Whitaker as director, power station construction, Hawker Siddeley Power Engineering. He was managing director of sister company South Wales Switchgear. Mr Gareth Clarke has been promoted from finance director of South Wales Switchgear to director and general manager.

CONSTRUCTION CONTRACTS

Auditorium for Sultan of Oman

WIMPEY ALAWI has been awarded three contracts in Oman, worth about £4.4m.

The largest is for a £2.5m music auditorium for the Sultan of Oman at Bait Al Barakah in Seeb. Work will take 13 months, and includes a 47-metres diameter circular auditorium for an audience of up to 150. The contract includes all mechanical and electrical works, finishings, furnishings and stage lighting.

For British Petroleum Middle East, the company has a £1.2m contract to upgrade and change the image of BP's 60 petrol stations throughout the Sultanate. All of the canopies, fascias, lighting, signs and shop fronts will have been changed by June 1992 to bring them in line with the company's new corporate identity.

The third contract is for a heavy-vehicle military workshop in Seeb for the Royal Guard of Oman. The £550,000 project will be finished by May next year, providing a building 70 metres long and 30 metres wide.

Expo 1992 exhibition projects

A £22m construction management contract has been awarded to the P&O company BOVIS INTERNATIONAL to convert the Plaza de Armas Railway Station in Seville into an exhibition centre in time for the Expo 1992 Worlds Fair. Work will be undertaken by subsidiary company Bovis Internacional de Espana SA.

The 15 month fast-track project also involves the construction of a five-storey four star hotel with 250 bedrooms, a nine-storey office tower and two levels of underground parking for up to 650 cars.

All four elements of the 602,000 sq ft development will be connected at ground level with a landscaped shopping plaza which will provide pedestrian access to the area from a neighbouring bus station. The client is Corta de Chapina SA, of Madrid.

As well as restoration of the 76,000 sq ft station building, a further 56,000 sq ft of space will be constructed by Bovis Internacional, providing the city with a permanent commercial centre for exhibitions and trade fairs. The new offices will total 140,500 sq ft in area and the hotel 250,000 sq ft.

In Madrid, Bovis Internacional has started work on a £6.5m contract to build the shell and core of a four-storey 100,000 sq ft office block for Pan European United Trust. Work is due for completion in February 1992.

New club stand at Epsom racecourse

The Woking-based southern office of WILLETT, a member of the construction division of Trafalgar House, has been awarded an £8.4m contract by United Racecourses (Holdings) for the construction of a new club stand at Epsom racecourse.

The project, due to commence in January with completion scheduled for May 1992, will be in two phases to minimise disruption to this year's Derby day in June.

The old club stand is to be demolished to make way for the new and enhanced accommodation which will include jockeys' facilities, press room and cinema at lower ground floor level; main entrance, exhibition space, bars and tote facilities at ground/mezzanine levels and the club restaurant and kitchen at level 1.

The new 25 metres high stand will have a total enclosed floor area of 6,500 sq metres and the construction will be mainly in situ reinforced concrete frame elliptical shaped columns in pad foundations with a steel frame supporting metal decked roofs above level 5.

The contract also includes installation of two pairs of passenger lifts, a goods lift, electrical and building management systems and specialist technical services.

Wokingham swimming pool

LAING WESSEX has over £9m orders. The largest is a £4.1m contract awarded by Wokingham District Council for a swimming pool. Construction begins this month at the Carnival Field and involves a single-storey complex and access road, for completion in July 1992. In Windsor, ICL has awarded two contracts, together worth £5.1m, for three training centre blocks. The first is to be finished in July, and will contain 78 study bedrooms with en-suite bathrooms. Work on the other blocks, providing 88 rooms, is due for completion by the end of the year.

* * *

New business at BEAZER CONSTRUCTION SOUTHERN is currently worth over £7m. Work includes the modernisation of accommodation blocks at RAF Northolt for the PSA; construction of a security building in Hounslow for British Airways; and a four-storey commercial building in Brixton, south London, for Effra Properties, which will include an old synagogue in the facade.

Oxford University innovation centre

The contract for the £4.9m Oxford Innovation Centre, a joint venture between the University's Magdalen College and the Prudential Insurance Co, has been won by the SDC CONSTRUCTION GROUP, Bedford.

The project is similar to the Cambridge Innovation Centre, also built by SDC, which provides office facilities for emergent high technology companies along with a central secretariat, conference and seminar rooms all linked to the resources of the University.

The contract is one of eight awarded to SDC, total value £19m, which also includes the £5.5m extension and refurbishment of the Sainsbury stores group's residential training centre, Fanham's Hall, at Ware, Hertfordshire, and a two-storey technology centre, costing £2.7m, for Vauxhall Motors at Dunstable.

The remainder, a mix of commercial and industrial, are a multi-screen fit out for Cannon Cinemas at Bedford's Aspects leisure centre and an extension to the Fitzwilliam Hospital, Peterborough, (both £1.5m), six industrial units for Durkan Property Developments at Welham Green, Hertfordshire, (£1.3m), also refurbishments for IMO Precision Controls at Staples Corner (£1m) and the Rover Group at Longbridge (£564,000).

Telecommunications centre in Cardiff

Contracts totalling more than £12m have been awarded to MOWLEM SOUTH WALES, a division of Mowlem Regional Construction.

Work has started on the largest, a telecommunications engineering centre being built at Forest Farm, Cardiff (close to junction 32 of the M4), for British Telecom Wales and the Marches. The project involves the construction of three buildings including an administration centre. Completion is scheduled for June 1991.

In Swansea, a European business management school building is being built for the University of Wales Swansea College at the Singleton Park site. The two-storey, steel-framed, metal clad building with timber-framed windows throughout, will be completed by summer 1991. The contract is worth £2.1m.

A £2m refurbishment project is under way in Caldicot for Monmouth Borough Council. The 40-week contract involves rebuilding 78 PRC houses on a Caldicot housing estate. All external walls are to be reconstructed, doors and windows rebuilt, and the insulation increased on all properties.

A £1.7m building extension and recladding contract has also been awarded to the company. A two-storey extension to Texaco's offices at its oil refinery plant in Pembroke is being built and the existing offices reclad using high-class aluminium panel finishing cladding.

Other contracts include the overcladding of a multi-storey residential block in Grangetown, Cardiff and the ground floor refurbishment of flats in Bute Street, Cardiff including electrical works.

ARTS

The Homecoming

COMEDY THEATRE

Something has clearly changed in the British theatre – and perhaps in Britain – since 1965 when Harold Pinter's *The Homecoming* was first performed by the Royal Shakespeare Company at the Aldwych and was widely seen as a *tour de force*. Even this reviewer thought that it had its moments. The Pinter pause between statements was almost an art in itself.

The Homecoming reappeared at the Comedy last week, again directed by Peter Hall and designed by John Bury: no less. It was not the happiest of 25th anniversaries, for the news is that Pinter has most dreadfully dated. This play also seems much more unpleasant – sometimes quite viciously so – than one remembered.

It is fair to add, in case anyone is tempted to leave at the interval, that the second act is considerably better than the first, which is embarrassing in its banality and lugubrious slowness. Someone should take a stop-watch to the pauses: if they do not take longer than the dialogue, it must be a close run thing. Few of the pauses are pregnant. For a while I thought that Peter Hall was deliberately sending up a playwright whose style has understandably given rise to numerous parodies. Such a view would be too kind: this production is relentless in its attempt to be taken seriously.

There is a star attraction. Warren Mitchell, the Alf Garnett of the BBC's *Til Death Do Us Part* plays Max, the father. The two roles have a lot in common: both characters are illiberal, xenophobic and generally contemptuous of women. Possibly Mitchell's playing accentuates the similarities, but even that conclusion must be subject to a photo-finish. Both characters are more nasty than funny.

Mitchell has said frequently that he does not approve of the characters he plays: he claims to do it to expose their prejudices. The claim would be easier to believe, however, if there were some element of satire and if someone ever stood up to the bullies. After this production, one begins to wonder about Pinter, too. The illiberalism and the lack of feeling might just as well be his rather than his characters'.

The jokes of 1965 have turned sour in 1991.

There is also one spectacular piece of miscasting. Greg Hicks who plays Teddy, the philosopher son who has gone off for a more than comfortable life at an American university, neither looks nor speaks like a don of any kind. Note his clothes and movements for a start. Since the director, after all, is Peter Hall, there may be some reason for this. Is it a private joke? If so, it escapes us.

Moreover, the philosopher's wife Ruth, well enough played by Cherie Lunghi, is a cypher. She has no characterisation of her own and is merely a butt for the men. That must be Pinter's fault as well as Hall's. Certainly it is not Ms Lunghi's. She does everything that is asked of her.

Nevertheless, perhaps you should go and see this production, especially if you saw the original. It will be an interesting test of whether your attitudes have changed. Few people, I guess, will admire *The Homecoming* now.

Malcolm Rutherford

Cherie Lunghi as Ruth, with Warren Mitchell (right) and Douglas McFerran

ARCHITECTURE

The best of British

Colin Amery discusses the buildings of the 1980s which caught his eye

I am regularly asked: "Where are the good new buildings in Britain?" It is a question that crops up as people return from Paris and, more recently, from Barcelona. It used to be asked, particularly by developers, when they returned flushed with enthusiasm about the quality of the building boom during the 1980s in parts of the US. Nowadays developers are not very flush, which may give them time to look at some of the architectural achievements of the 1980s in Britain.

This thought made me wonder if I was giving my readers the service they deserve. There is not space to write about every new building that catches the eye, and although I attempt to offer a catholic coverage, it is easy to be diverted by pressing topical matters of opinion.

Starting the search for top quality architectural experiences in Scotland and working south would take us to the Burrell Collection Museum in Glasgow designed in the early 1980s by Barry Gasson. This is beautifully sited alongside some superb woodland and has high, elegant galleries full of the rich mixture which makes up the collection. Not very distinguished from the outside, but one of Scotland's best modern buildings within.

Also in Glasgow is the Princes Square Shopping Centre on Buchanan Street (architect Hugh Martin), an enclosed town square with shopping on five levels. This is distinguished by its brave attempts to incorporate the work of artists and craftsmen who have been used to ornament the whole centre. The sense of theatre is strong and highly attractive.

Not far away is the St. Enoch Centre which claims to have the largest glass roof in Europe. The architects were Reiach and Hall and the shopping and leisure centre was not finished until 1989. It is worth seeing, not for the shopping, but for the kind of engineering tour de force that we normally associate with the great Victorian railway stations.

Wales has few great recent buildings but the imported Richard Rogers Inmos Microelectronics factory in Newport does have a colourful and jagged high-tech presence. The main interior spine is very striking. Unless you are prepared to don a spacesuit you are unlikely to be allowed to see more. It should be on any list.

But when in Wales do not ignore Swansea, which has redeveloped its waterfront with houses and shops and remarkable conceptual and less conceptual art works. It has surreal beauty which is imaginative and rare.

Outside Sheffield at Hathersage on the Grindleford Road is the circular David Mellor Factory built in 1989 and designed by Michael Hopkins. It is one of the best new buildings in Britain – modest and yet perfectly planned and crowned by one of the most lovely roofs supported inside by the delicate spokes of a huge bicycle wheel.

In the north-east I have always liked the town hall that was built in the early 1980s in Chester-le-Street, designed by Faulkner-Brown, Hendy, Watkinson and Stonor. It gleams with a silvery glow and has a long tall barrel vaulted mall that runs right through it. This is a simple and straightforward modern building that organises all the civic activities very clearly and has brought a lot of light into the lives of the workforce.

The garden festival approach to inner city revitalisation during the 1980s did not leave many permanent memorials. But there is one in Liverpool at Priory Wood, where in 1984 Arup Associates built an amazing and elegant covered hall which is a great glazed barrel vault which looks as though it really should not stand up. It does, and looks marvellous.

To the east it has to be the Schlumberger Research Centre designed by Michael Hopkins just outside Cambridge that is worth the detour. Like a giant butterfly that has just landed in a meadow it has tremendous elegance. Which is, sadly, more than you can say for many of the new buildings in Cambridge of the 1980s – although the view from the garden of the (1980) new Robinson College by Gillespie, Kidd and Coia is dramatic and has the beauty of a great brick fort.

In the capital, you have to see Broadgate near Liverpool Street as an example of what can be done when following the American example of redeveloping whole blocks of the city as offices. It is not subtle, but of its kind (architects Arup Associates) it is good. The skating rink and sculpture are as good as the buildings. The rebuilt Liverpool Street Station is going to be a fine mixture of old and new when it is complete. Lloyd's of London on Lime Street by Richard Rogers and Partners is a mixture of bravura and barminess. It would be on any list and the central high space with the whirling yellow sided escalators is a million times better that the strange untidy outside.

Richard Rogers' Lloyd's of London building, showing the whirling escalators: better inside than out

In London Docklands there is little of real merit, but the work of Piers Gough of Campbell Zogolovitch Wilkinson and Gough have given us China Wharf, The Circle and Cascades – all of them original and very English. John Outram's Stormwater Pumping Station on the Isle of Dogs is a good example of a powerful architectural imagination at work on a mundane commission. The result is something so full-blown as to be almost alarming. James Stirling is not well represented in the capital and his Tate Gallery extension is not one of his great works, but it does have many of his hallmarks and should be seen for its curious contextual qualities and its pleasant galleries full of Turners.

The new wing of the National Gallery (architects Venturi Scott-Brown) will soon be on any visiting list of important new buildings as will Norman Foster's new premises for Independent Television News in the Grays Inn Road. News that Richard Rogers is to design the new HQ of Channel Four in Horseferry Road means that London will be rich in the high-tech architecture of communication. Is it too close to home to add Nicholas Grimshaw's Financial Times printing works on East India Dock Road? It is already much visited by architecture buffs.

No list can be complete and there is a good new guide that offers a much fuller coverage of the country for enthusiasts of the new. *Modern Architecture in Britain* by Peter Murray and Stephen Trombley has just been published by the Architecture Design and Technology Press at £12.95.

Henze

BARBICAN HALL and RADIO 3

The core of the BBC's Henze festival is the five days of orchestral concerts presented in the Barbican Hall, to which the production of *The English Cat* at the Guildhall School, on which Richard Fairman reported on Saturday, provides a fascinating pendant. Any practicably-sized attempt to encompass an output as large and varied as Henze's must concentrate on representative works and try to mix the *familiar with the unfamiliar*; the BBC's programmes succeed in that, and between the First Violin Concerto of 1948, included in the opening concert on Friday, and the Seventh Symphony of 1984, which ends the celebration tomorrow, nearly every phase of his protean development is registered.

Inevitably there are omissions – it would have been splendid, for instance, to have been able to hear again *Voices*, which has not been given complete in London for some years and is arguably Henze's non-operatic masterpiece. But there is the chance to reassess both *The Raft of the Medusa* and *Tristan*, major scores which divide opinions right down the middle, and go to the heart of the "Henze problem": of how to come to terms with a composer as manifestly gifted as any in the last 50 years, yet whose music ranges between extremes of self-discipline and self-indulgence, between sharp-edged originality and apparent miscalculation.

The opening programme, beautifully prepared and conducted by Markus Stenz with the BBC Philharmonic, could have designed to show how unruly that creativity can be. It ended with the orchestral epitome of Henze's indulgent streak, the monstrous "allegory for orchestra" of 1972, *Heliogabalus Imperator*, in which his perfectly admirable purpose in portraying the life history of the Roman boy emperor as a *celebration of creative freedom* and independence becomes an essay in uncontrolled excess, thin on ideas and heavy on rhetoric. Together with the early violin concerto (in which Kolja Blacher was the elegant soloist), with its assured and highly personal compromise between serialism and Bartókian neoclassicism, and the dry, constructivist *Antifone* of 1961, it showed just how easily Henze can slip behind a mask and, whether consciously or not, fall back upon that formidable fluency.

It is when Henze encounters words that the disguises drop away – *in the best of his* operas and vocal works. So the 1957 setting of Ingeborg Bachmann, *Nocturnes and Arias*, with the soprano Christine Whittlesey as rapt soloist, was the jewel of this opening showcase, embedding the voice in luscious orchestral textures and charging the lines with an unaffected Bergian expressiveness.

Perhaps, it hinted, Henze's misfortune has always been to be an instinctive composer in *an age when rigour and theory* have been rated more highly than imaginative power.

Andrew Clements

BOOK REVIEW

A century of Russia's dancing past regained

We know far too little about the history of ballet in Russia, and that far too partially, thanks to the blinkers and gags forced upon Soviet dance-scholars in the years before glasnost.

It is saddening to contemplate the special pleading and bias which corrupted what should have been serious commentary from Russian dance authorities for more than half a century. And because few Western writers of stature had the linguistic skill or the academic distinction to make use of Russian source materials, our view of some of the most important ballet during the past two centuries has been ill-founded in fact and skewed in interpretation.

Thus the significance of Roland John Wiley, pre-eminent in seeking to provide serious, impeccably scholarly and imaginative material to redress this situation.

Five years ago his *Tchaikovsky's Ballets* was a pioneering work in its authority and probity. Now comes *A Century of Russian Ballet* to shed further much-needed illumination. His subtitle – *Documents and Eye-witness Accounts, 1810-1910* – explains the matter of a book essential for anyone interested in the development of Russian ballet.

Professor Wiley has selected, translated and commented upon a series of Russian texts which give a panoramic view of the ballet in Petersburg (chiefly) and Moscow.

The vast majority of these documents are unknown to Western readers. Reading them, we gain new understanding of the life of performers, of the nature of ballet and the world of the imperial theatres, in the words of the dancers, choreographers and critics who inhabited that world.

Wiley's texts trace the growth of a great Russian art during its greatest years, from Didelot at the beginning of the last century to

A CENTURY OF RUSSIAN BALLET by Roland John Wiley
Clarendon Press Oxford £29.50, 440 pages

Fokine at the start of this. We meet Didelot in the biographical memoir by his devoted pupil, Adam Glushkovsky, and incidentally glimpse a society very like *the one we know from War and Peace*.

The reminiscences of the dancers Timofey Stukolkin and Anna Natarova explain the often harsh existence of students and performers in the imperial theatres with innocent directness. Natarova describes a visit in 1851 to Peterhof where, as one of a group of pupils, she took part in an open-air performance on the Olga island of Perrot's *The Naiad and the Fisherman*. She evokes with marvellous clarity the child students' excitement in the Tsar's presence – they did not dare eat the repast prepared for them until he had turned away – and recounts how one girl, shown the caged eagles in the aviary, observed that "Even I know that an eagle has two heads".

Other dancers seem no less vivid in Wiley's sympathetic translations. There is Nadezhda Bogdanova, whose biographical sketch was deliberately couched in almost religious terms, not least when treating of her modesty amid the *corrupt luxury* of the Parisian ballet scene; and Ekaterina Vazem, in a selection from the acerbic memoirs she dictated in the 1930s when she was nearly 90 and living in Leningrad, re-lives her triumphs of 60 years before.

She furnishes a briskly unflattering portrait of Petipa, who gave her some of her finest roles, remembering him as "unmusical" and a compulsive womaniser "extremely proud of his conquests".

The elaborate procedures of the old ballets start into motion as we read the libretti – short stories in all but name – of some of the most significant productions on the imperial stages, while in the writings of two leading critics, Skalkovsky and Khudekov, we are back in the stalls of the Mariinsky Theatre, in the coulisses, and in the haunts of balletomanes (even madder and more devoted to their favourites than any today).

To each of the book's sections, which end with Alexandre Benois and Diaghilev as commentators on the late years of the imperial ballet, Wiley provides introductions that bring events and characters into sharp focus. Through these, as through his sensitive translations, a century of ballet, with its vagaries of taste and fashion, can be understood, and savoured. The past is regained, as if we had dipped the madeleine in a glass of tea from a Petersburg samovar.

Clement Crisp

INTERNATIONAL
ARTS GUIDE
TODAY'S EVENTS

■ BARCELONA

Gran Teatre del Liceu 21.00 Recital by Pilar Lorengar, with songs by *Vivaldi, Pergolesi*, Brahms, Wolf, Granados and others (412 1466)

■ BERLIN

MUSIC
Deutsche Oper 19.00 Don Giovanni, with Ruggero Raimondi in the title role. Tomorrow: Eine Volkssage, ballet by Peter Schaufuss. Wed: Turandot (3410 249)
THEATRE
Maxim Gorki Theater 19.30 T.S. Eliot's The Cocktail Party, also Sat (2082 783)
Schiller Theater *20.00* Liebe macht Tod, adaptation of Romeo and Juliet by Thomas Brasch (3195 236)

■ BUDAPEST

State Opera 19.30 Silvia Marcovici is violin soloist in a programme of Bartok and Beethoven with the Budapest Philharmonic Orchestra conducted by Erich Bergel. Repeated tomorrow

■ CHICAGO

Lyric Opera 19.30 Ponnelle *production of Carmen. Also Fri* (332 2244)
Orchestra Hall 19.30 Chamber music by Brahms, Berg, Mozart and Frank Martin played by members of the Chicago Symphony, no seat reservations (435 6666)

■ COLOGNE

MUSIC
Philharmonie 20.00 Heinrich Schiff is conductor and soloist in a programme of Dvořák, Beethoven and Franz Hummel's Cello Concerto, with the Deutsche Kammerphilharmonie (2801)

■ DRESDEN

Semperoper 19.00 Falstaff, also Fri (4842 731)

■ FRANKFURT

Alte Oper Grosser Saal 20.00 Frankfurt Opera Orchestra plays all-Brahms programme. Tomorrow: Giuseppe Sinopoli conducts the Philharmonia Orchestra. Wed: recital by Hermann Prey (1340 400)
Alte Oper Mozart Saal 20.00 Piano recital by Tatiana Nikolayeva (1340 400)

■ GENEVA

Grand Theatre 20.00 Christian Thielemann conducts concert performance of Daphne, with Lucia Popp in title role. Last performance Thurs (212311)

■ THE HAGUE

Dr Anton Philipszaal 20.15 *Netherlands Chamber Orchestra* conducted by Jean-Jacques Kantorow play Boccherini, Mozart and Tchaikovsky, with Maria Tipo soloist in Mozart's Piano Concerto No. 27, also Sun. Fri and Sat: Mozart programme with the Residentie Orchestra (3609 810)

■ LEIPZIG

Opernhaus 19.30 Jakob Lenz, chamber opera by Wolfgang Rihm (7168 273)

■ LONDON

MUSIC
Queen Elizabeth Hall 18.00 The Ring Saga Part Two: Brünnhilde's Awakening. City of Birmingham Touring Opera's reduced version of Wagner's Tetralogy (928 8800)
Barbican Centre 19.45 Parnassus Ensemble plays music by Hans Werner Henze (638 8891)
THEATRE
This week's shows include Pinter's The Homecoming directed by Peter Hall, with Warren Mitchell and Cherie Lunghi (Comedy). Also The *Wind in the Willows directed by* Nicholas Hytner, Brian Cox as King Lear and Ian McKellen as Richard III (National), Vanessa, Lynn and Jemma Redgrave as Chekhov's Three Sisters (Queens), Anouilh's The Rehearsal with costumes by Jasper Conran (Garrick), Ayckbourn's Absurd Person Singular (Whitehall), Joan Collins in Private Lives (Aldwych), Miss Saigon (Drury Lane), Andrew Lloyd Webber's Aspects of Love, Starlight Express and Phantom of the Opera. Phone Theatreline: Plays 0836 430 959 Musicals 0836 430960 *Comedies* 0836 430961 Thrillers 0836 430962

■ MILAN

Teatro alla Scala 20.00 Recital by Chris Merritt accompanied by Robert Kettelson, with songs by Bellini, Rossini, Duparc, Gluck, Handel and others. Tomorrow, Wed, Fri and Sun: Pier Luigi Pizzi's production of Le Comte Ory conducted by Bruno Campanella, with Cecilia Bartoli as Adele (7200 3744)

■ MUNICH

MUSIC
Staatsoper 20.00 Rafael Frühbeck de Burgos conducts Bavarian State Orchestra in The Rite of Spring and Beethoven's Seventh Symphony. Tomorrow and Thurs: Yuri Lyubimov's new production of The Love for Three Oranges conducted by Wolfgang Sawallisch (221316)
THEATRE
Kammerspiele 20.00 Ibsen's John Gabriel Borkman directed by Hans Lietzau *(23721 328)*

■ NEW YORK

MUSIC
Metropolitan Opera 20.00 New production of Die Zauberflöte conducted by James Levine, with Kathleen Battle, Luciana Serra, Francisco Araiza and Kurt Moll. Also Thurs. Tomorrow and Sat: *Boris Godunov* (362 6000)
THEATRE
This week's shows include Assassins, musical by Stephen *Sondheim* (Playwrights Horizons), City of Angels, musical about Hollywood in the 1940s by Larry Gebhart (Virginia), *Black* and Blue, an evening of classic jazz and blues with tap-dancing (Minskoff), Monster in a Box, one-man show by Spalding Gray (Lincoln Center) and Six Degreees of Separation, new play by John Guare (Lincoln Center. Ticketron (239 6200) answers inquiries and sells tickets

■ PARIS

MUSIC
Opéra Bastille 19.30 Gabriele Ferro conducts Le nozze di Figaro with Renee Fleming as the Countess, Michele Pertusi as Figaro, Martine Mahe as Cherubino and Anton Scharinger as Figaro. Also Wed and Fri (4001 1616)
THEATRE
Comédie Française 20.30 Le Barbier de Seville by Beaumarchais. Tomorrow and Sun: Moliere's Le Medecin malgre lui, directed by Dario Fo (4366 4360)

■ PRAGUE

National Theatre *19.00* Smetana's Dalibor. Tomorrow: Tartuffe. Wed: Katya Kabanova

■ ROTTERDAM

De Doelen 20.15 New Belgian Chamber Orchestra conducted by Jan Caeyers play Beethoven's Fourth Symphony and Vieuxtemps Violin Concerto No. 5, with Theodora Geraets. *Tomorrow*, Wed and Thurs: Rotterdam Philharmonic Orchestra conducted by James Conlon play *Mozart*, Mahler and Beethoven (413 2490)

■ VIENNA

Staatsoper 19.30 Der fliegende Holländer with Elizabeth Connell and Bernd Weikl. Tomorrow: Natalia Troitskaya sings Tosca. Thurs: Carmen with Baltsa and Carreras (51444 2960)
Volksoper 19.00 Eine Nacht in Venedig by Johann Strauss. Wed: Die Fledermaus (51444 3318)
Musikverein 19.30 Zubin Mehta conducts Vienna Philharmonic Orchestra in all-Mozart programme, with Rainer Küchl and Heinrich Koll soloists in Sinfonia Concertante for Violin and Viola. Fri: Walter Weller conducts Austrian Radio Symphony Orchestra in music by Dvořák and Martinu (505 8190)
Burgtheater 20.00 Medea by Hans Henny Jahnn (51444 2218)
Telephone sales of tickets for Staatsoper, Volksoper and Burgtheater available worldwide for holders of credit cards by ringing Vienna 5131 513

■ WASHINGTON

Eisenhower Theater This month's performances by the Washington Opera are all sold out (416 7800)

■ ZURICH

Schauspielhaus 19.30 Ibsen's An Enemy of the People, also tomorrow and Fri. (251 1111)

European Cable and Satellite Business TV

(all times CET)

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Eurosport
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CNN
0500-0530 Moneyline
0800-0830 Moneyline
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0700-0830 Financial Times Business Report
*A five minute business brief*ing broadcast three times between 0700 and 0800
2130 (Wed only) Financial Times Business Weekly - the latest business round-up.

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FINANCIAL TIMES
NUMBER ONE SOUTHWARK BRIDGE, LONDON SE1 9HL
Telephone: 071-873 3000 Telex: 922186 Fax: 071-407 5700
Monday January 14 1991

Consequences of Vilnius

AFTER years of living easily, the west now faces harsh moral choices once more. Most obviously, this is true of the Gulf but they are also becoming harder in respect of the Soviet Union. The deaths in Vilnius in the early hours of yesterday morning make it all the more necessary to determine exactly what sort of relationships can be maintained with the government and person of President Gorbachev.

One consideration is still valid: that the immense credit which the west has sunk in him was not paid out for nothing. Internationally, he ended Soviet hegemony over eastern Europe and did so peacefully. He has ceased to subsidise many, though not all, of the Soviet interventions in the Third World. He has stimulated the most sustained process of arms reduction the Cold War has seen, a process which, though now in doubt, is not definitively closed off. He has lined up against Iraq, passively, to be sure, but that was probably his political limit.

Within the Soviet Union itself, the process of glasnost has flourished in unprecedented free speech and publication for four years, and is only now being in part reversed. Mr Gorbachev faced down the neo-Stalinists within his own party. He has decreed formal political pluralism. Religious faith can now be openly celebrated, and there is relative freedom to travel abroad. Elements of a market system have been introduced, and it remains a stated aim.

Courageous efforts

The west bet on Mr Gorbachev because in the latter part of the 1980s he appeared to be making of the Soviet Union a society governed by law. His efforts in that direction were deeper, more consistent and more courageous than any before. But in reaching a limit – perhaps even the end – to this process, we can see with great clarity that institutions of civil democratic power are still missing; nor has there been any more than the rhetoric of devolution of authority to the republics. The centre remained, in its core, imperialist and authoritarian. The military and the KGB have not given up; the positions occupied by the democrats and nationalists have insufficient countervailing strength.

And thus the questions impose themselves: should the bet now come off? If so, what would this mean for the Soviet Union, and for the west?

If the west were to decide that the military murders in Vilnius this weekend were a deliberate act of presidential authority, and if this is a harbinger of more to come, then the western states must open an examination of phased withdrawal of its aid to the Soviet Union. It must re-examine its posture on arms-control agreements and on further arms cuts. It must reassure at least those central European countries which are building democratic structures from the collapse of Soviet and domestic communist tutelage that it now regards them as inviolable.

Policy reversal

To begin such a reversal of policy would open the way back to the Cold War. The immensity of such a loss dictates caution, even as the revulsion at the tactics of the Soviet army in Vilnius grows. We can effectively do nothing for the peoples of the Soviet empire who aspire to independence if the screw tightens in Moscow. We have to remember that the massacre by Soviet troops in Tbilisi in April 1989, which appeared to pass with only protests, and did not then signal the end of reform.

It is not yet clear how far Vilnius was – as Tbilisi seems to have been – instigated by vengeful local commanders – the more so since the central authorities, including Mr Gorbachev, had only the day before promised an end to repression. Indeed, at roughly the same time as the Tbilisi massacre, President Gorbachev suggested obliquely that the Baltic states might ultimately evolve a relationship with the Soviet Union similar to that of Finland: close, but independent. It may be, still, that that prospect is not wholly lost.

But the terrible choice will be inescapable if the sky continues to darken. As it becomes clear that reaction has gripped the structures of Soviet power, so we cannot continue a collaboration with it.

Solving the pay dilemma

INFLATION will be forced down this year by the combination of high interest rates and sterling's membership of the exchange rate mechanism. Yet a combination of irrationality and confusion ensures that inflation will be reduced in the most painful possible way. Unemployment could rise by up to a million unless a co-ordinated shift to forward-looking wage contracts occurs.

Workers are primarily concerned not with their money wage but with the value of the goods their wages will buy. If wage claims were not based on some expectation of the rate of inflation, wage-bargainers could not know whether the negotiated increase in money wages would mean a rise or fall in real wages.

Expectations of inflation often turn out to be mistaken. But it is foolish to base claims on last year's inflation rate. By seeking to compensate for last year's errors, bargainers will make this year's problems of recession and increasing unemployment far worse than they need be. Pay settlements around the level of inflation over the past year will result in real wage growth of upwards of 4 per cent in 1991, even though output is stagnant and productivity falling. The employed can now only be compensated for last year's higher than expected inflation at the expense of the jobs of many of their colleagues this year.

Feasible increase

What is the answer? First unions and management should bargain over a feasible real wage increase (or reduction) for the coming year; then they should add on the expected inflation rate. If this expectation turns out to be too low, employees should then be compensated at agreed intervals to preserve the negotiated real wage.

In a year of around zero average productivity growth, any increase in the average real wage would cut jobs and undermine competitiveness. Some variation around that average to reflect supply and demand and the condition of individual companies would remain possible and be desirable.

A fundamental issue is the choice of the rate of inflation. It should not be the headline rate, as the Confederation of British Industry has pointed out. Companies should not be expected to compensate workers for changes external to the corporate sector, such as higher taxes, adverse shifts in the country's terms of trade or, most important of all, interest rates. In aggregate they can do so only at the expense of profits or of consumers not employed in the company sector.

Appropriate rate

Joining the ERM has determined what is the appropriate inflation rate. The longer underlying inflation in the open sectors of UK economy remains above that in Germany, the more UK competitiveness will deteriorate. The best forward looking index would, therefore, be the expected German rate of inflation. Workers would not lose by using this benchmark, since their real wages would be guaranteed by the wage contract. Equally important, companies must gain in aggregate, since the alternative is a severe profit squeeze. By switching to such a contract the rate of increase of nominal wages and therefore UK prices would fall faster, because the expectation of German-style inflation would, in part, be self-fulfilling.

Forward looking contracts would not require co-ordination, since workers accepting low initial pay increases would be guaranteed compensation against unexpectedly high subsequent inflation. None the less, the transition would need to be co-ordinated since in a competitive labour market, with national industries and relatively mobile labour, companies cannot afford to reduce their nominal wage growth unilaterally, however much they are exhorted to do so.

Current practice is generating real wage increases that the economy will not be able to afford. The result will be bankruptcies and much higher unemployment. Accepting the wisdom of a co-ordinated move to forward-looking contracts may cause the CBI to lose face. It will cost its members, their employees and their soon-to-be ex-employees, much more if it does not.

The queue of giant oil tankers standing off Europe and North America has been gradually lengthening as their owners wait nervously for the first shots in the Gulf. In discreet corners of the Caribbean, and off the coasts of Spain, north-west Europe and west Africa, numerous vessels are lurking, their vast holds filled with more than 60m barrels of oil which is being salted away by Saudi Arabia and Iran far from President Saddam Hussein's guns.

Right now, all this black gold is worth about $26 a barrel, but by the end of the week its value could have doubled – or it could have halved.

"The situation is unique in all my experience of the oil markets," says one senior oil trader. "Oil prices are usually affected by a whole array of factors. But now it comes down to the behaviour of one man. Will Saddam withdraw or won't he? It almost comes down to flipping a coin."

War is on one side of that coin. The first shot will cause an immediate spike in price, even though the world is awash with oil. The frayed and jittery nerves of oil traders will see to that. But oil prices are not likely to soar to $70 or $100 a barrel, as was predicted back in August. Traders believe they are more likely to rise to a level of $40-$50, falling back if the flow of oil from Saudi Arabia remains uninterrupted.

Most analysts are banking on a short, sharp war which will not inhibit output. What they fear most is a prolonged conflict that could inflict widespread damage on Saudi Arabia's oil installations. If that happened, all bets about price would be off.

At risk are Saudi Arabia's northernmost oilfields close to its border with Kuwait and offshore production rigs at the top of the Gulf. These are within reach of Iraqi artillery fire, although Iraq's performance during the Iran-Iraq war suggests they are as likely to be hit by accident as by design.

Oil production in the neutral zone, a strip of land shared by Kuwait and Saudi Arabia, will stop as soon as war is declared. That will remove 300,000 barrels a day (b/d) of output. In addition, Saudi Arabia's Safaniya, Zuluf and Marjan fields, where output is concentrated offshore, could also be wound down as employees are evacuated, closing off 1.5m-3.5m b/d.

Saudi Arabia could turn off 600,000 b/d of its oil flow and still meet its customer deliveries for up to three months, thanks to the huge quantities it has stored outside the war zone, according to estimates by Mr Geoff Pyne, analyst at UBS Phillips & Drew, the UK brokers.

Oil wells do not provide easy targets for Iraqi missiles, but what many in Saudi Arabia's oil industry fear is sabotage by Iraqi sympathisers. When the country's biggest refinery at Ras Tannurah was damaged by fire in mid-November, reports circulating at the time blamed it on an act of sabotage.

Ras Tannurah is also an important shipping terminal accounting for 4m b/d of Saudi exports. While war would probably mean a temporary hiatus as tanker owners assessed the position, the Saudis are hoping tanker traffic will resume quickly, as it did in the Iran-Iraq war. The defences at Ras Tannurah are among the most sophisticated in the war zone, since damage to the terminal could severely disrupt oil supplies.

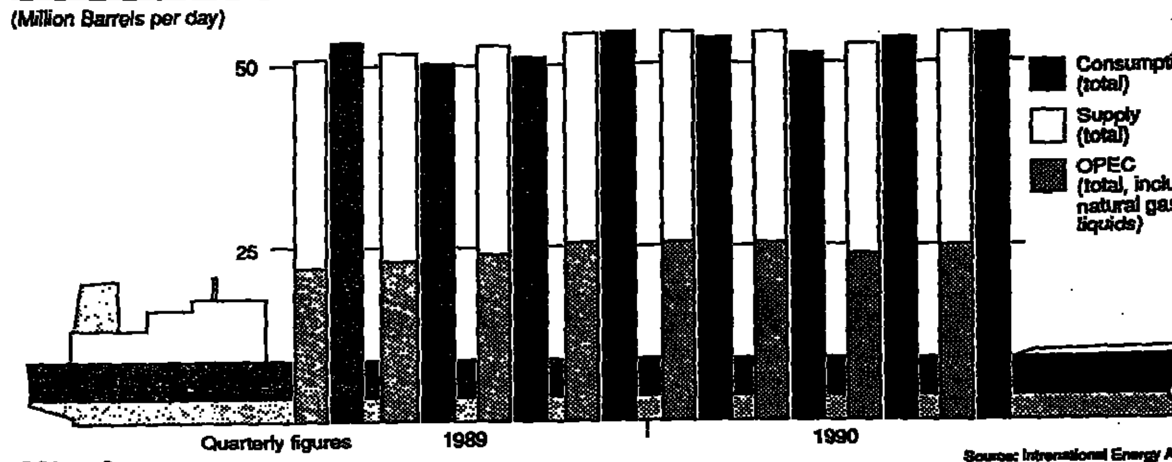
The other outlet for Saudi oil is via pipeline across the country to the Red Sea port of Yanbu. Although the pipeline could be hit in an attack, damage to it would be easier to repair than at Ras Tannurah.

The International Energy Agency, which co-ordinates the energy policy of the leading industrialised countries, anticipated a supply shortfall of 2.5m b/d in its decision last week to release that much to world markets should war break out. But for the moment, analysts are discounting nightmare scenarios, such as the complete closure of the Gulf or disruption to the Suez canal in the event of Israel being drawn into the war.

The oil market waits for the word of one man. David Thomas and Deborah Hargreaves on an unprecedented period of uncertainty

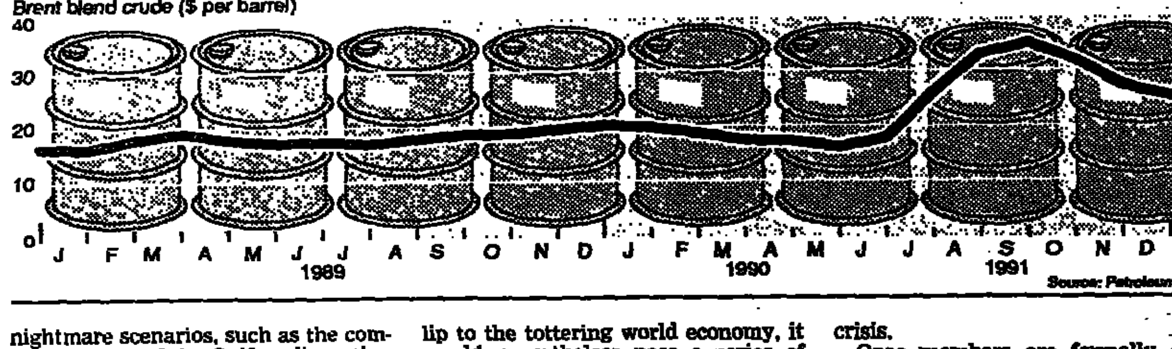
High anxiety about black gold

Oil supply & demand (excluding the centrally - planned economies)



Source: International Energy Agency

Oil price
Brent blend crude ($ per barrel)



Source: Petroleum Argus

Nevertheless, war could still put particular strains on specific regional and product markets. Japan and other Far Eastern countries appear especially vulnerable, since they buy much of their oil from Gulf producers.

Moreover, the allied forces in Saudi Arabia have an insatiable appetite for certain premium products, notably jet fuel. The US army's M1 tanks are unusual in that they run on jet fuel, not gasoline or diesel. They are guzzlers of the first order, with their battlefield consumption estimated at more than 6 gallons to the mile.

Samarec, the state-owned Saudi marketing company, has been buying large quantities of jet fuel and gas oil from other countries for the allied forces, reportedly chartering more than 20 ships to carry the supplies. A war of any length would probably cause big price increases for such premium fuels, particularly if hostilities forced the closure of Saudi refineries, such as those at Jubail and Ras Tannurah on the Gulf coast.

In the face of these worries, one might expect oil companies to be building stocks to a massive extent. However, their strategists are still being inhibited by the possibility of a peaceful settlement emerging at the 11th hour. A complete solution to the crisis through a peaceful withdrawal of Iraq from Kuwait would send oil prices into free fall, possibly to below $18 a barrel in the short term, oil executives believe. A much-needed fillip to the tottering world economy, it would nevertheless pose a series of knotty problems for oil producers and suppliers.

The biggest dilemmas would face the Organisation of Petroleum Exporting Countries. The economic consequences of Iraq's invasion of Kuwait would have been much more severe if Opec had not agreed to suspend its output quotas, allowing the shortfall from Iraq and Kuwait to be made good, principally by Saudi Arabia, Venezuela and the United Arab Emirates. "The speed and extent of the response from Opec producers since August has surpassed all earlier expectations," the IEA says.

Oil wells do not provide easy targets for Iraqi missiles, but what many people in Saudi Arabia's oil industry fear is sabotage of installations by Iraqi sympathisers

But Opec strategists are already pondering how to respond once the crisis is over. "I am very, very afraid about the future," said Mr Gholamreza Aghazadeh, the Iranian oil minister after a special Opec meeting in Vienna last month. He was voicing the fears of several Opec members about how the organisation will restore production discipline after the crisis.

Opec members are formally committed to returning to their agreed output quota of 22.5m b/d and the organisation has scheduled a special meeting for March to decide how this will be done. But Opec members produced 23m b/d of crude in December – without the normal contribution from Iraq and Kuwait of about 4m b/d. Many observers question whether those countries which plugged the supply gap will be ready to wind down their production equally quickly.

Some observers even question whether Opec can survive in its present form, although these doubts are brushed aside by Mr Sadek Boussena, the Algerian oil minister who is Opec's president. "This organisation will be a necessity for all of us," Mr Boussena asserts confidently.

The focus will inevitably fall on Saudi Arabia, since its increase in output from 5.4m b/d before the crisis to 8.2m b/d now has been fundamental to calming the oil markets immediately after the August invasion, fear of imminent supply shortages had sent prices soaring. The market had little idea of how much extra output could be squeezed from producing countries. The full blast of winter and the peak consumption period lay ahead.

Now, the situation is much different. The IEA puts government and company stocks at their highest level for nine years, representing 98 days of total consumption by the main industrialised countries. The next few months are a time when oil companies traditionally offload stocks in preparation for a fall in demand in the warmer weather. At the same time, recession and the mild winter have pushed demand lower than expected: the 21 member countries of the IEA registered a 3 per cent drop in consumption in the final quarter of 1990 to 38.1m b/d.

Supply and demand are currently roughly in equilibrium. The IEA estimates that in order to keep its members' countries' consumption at the forecast level of 38.4m b/d for the first quarter, Opec needs to produce 23.6m b/d, just 100,000 b/d above its December level.

Regional imbalances were also smoothed out in the months following the invasion of Kuwait. Japan, which formerly bought much of its crude from Iraq and Kuwait, moved rapidly to fill the gap, notably through increased purchases from Iran. "The Japanese signed up with the Iranians for as much oil as they could give them," says one trader.

Comfortable stocks, falling consumption and high output have left the oil market strangely in balance: The price for North Sea Brent crude is holding around $25-$26 a barrel, although diplomatic developments can cause sharp day-to-day volatility: prices fluctuated wildly by about $7 a barrel in the aftermath of the failed US-Iraqi talks last Wednesday in Geneva.

"The market is obsessed by headline news right now," says Mr James Fiedler, an oil trader at ED&F Man in New York. "It can be unpredictable as to which news it grasps hold of, but when it does, it gives no thought to fundamentals."

The IEA hopes its plan to release 2.5m b/d of oil when it detects an imminent oil shortfall will calm the markets and discourage hoarding. The extra oil will come from the release of 2m b/d of government and corporate stock, with the rest achieved by measures to curb demand such as speed restrictions.

The plan marks a departure for the IEA, which has insisted till now it would respond only to an actual shortage and not a perceived one. Its change of mind has been largely at the instigation of the US which would provide the bulk of the stocks to be released. These are held in salt caverns deep in the Louisiana countryside and could take about 15 days to reach the market.

Industry analysts say the big oil companies were slow to build stocks in the third quarter of last year, adding only 400,000 b/d to their inventories against an average of 600,000 b/d over the last 10 years. This was followed by a fourth quarter when they held more stock than they would normally do over the period. Companies are therefore in a comfortable position to choose whether or not to sell stock this quarter or hold it for a bit longer. Their decisions will be dictated by events in the Gulf.

Until the crisis comes to a head, either in peace or in war, the oil industry remains in suspended animation. Speculators are no doubt betting on the outcome. But many of the biggest oil companies have been following a strategy of trying to keep their supplies in balance: taking a punt on war by building up huge stocks, or conversely backing peace by running down stocks, is too much of a gamble for most of the important players, given the extent to which everything depends on the unpredictable behaviour of Saddam Hussein.

"I would be very surprised if anyone in the mainstream oil industry believes they had a decent chance of securing a competitive advantage by taking a punt on it," says one of the largest companies.

The big questions facing the oil industry – the trend of prices, the future of Opec, the consequences of what happens for investment – will have to wait. Like everyone else in the world today, it is watching Baghdad.

Rhodes' new case load

■ The anonymous banker who likened the complexity of News Corp's $7.4bn debt renegotiations to similar efforts by Brazil, the Third World's biggest debtor, was closer to the truth than he realised.

For the man who led Citicorp's efforts to reschedule the debts of near-bust Latin American countries throughout the 1980s, has been drafted in to chivvy the more reluctant of Rupert Murdoch's 150 bankers into supporting the News Corp debt restructuring.

The entrance of Bill Rhodes, Citicorp's senior international executive, should provide some comfort to the cash-strapped Murdoch. Rhodes has prevailed in tougher restructurings than this, most recently Mexico's $48.5bn debt-reduction deal.

After more than a decade of being "Mr Refinancing" – his first rescheduling negotiation was with Nicaragua in the late 1970s – Rhodes is on first-name terms with the chairmen of most of the world's big banks. In fact, the Citicorp executive, currently playing a central part in Brazil's fraught negotiations with the banks, is on first-name terms with just about everybody.

One banker recalls a session in which Rhodes, to nobody's surprise, repeatedly addressed a senior Japanese banker by his first name. At the end of it, the banker – clearly accustomed to somewhat more formality but amused none the less – turned to a neighbour and remarked: "Not even my mother calls me that."

Memory man

■ Alfonso Guerra's decision to resign as Spain's deputy premier removes from the limelight one of the country's most egocentric and enigmatic political characters. He liked to say that he was chef in the kitchen while Prime Minister Felipe Gonzalez was the *maitre d'* who served out the dishes to the public.

He frequently boasted about his amazing memory and told an incredulous interviewer that in the days when he taught industrial design at a college of further education he had 1,400 pupils, "and I knew them all by name". He presumably knows by heart every line of the film Death in Venice for he claims to have seen it more than 30 times.

Colleagues of Guerra – one of 13 children of a Seville foundry worker – were irritated by his pedantry and opponents feared his barbed tongue. The Roman Catholic association Opus Dei, which Guerra claimed had infiltrated Spain's conservative party, was one of his favourite targets. He called it "a sinister equilibrium between the hair shirt and Remy Martin."

His home region of Andalucia in southern Spain is his passion for "it is perhaps the only region in the world that has not yet been perverted by money". The quote, resurrected by a Madrid newspaper yesterday, is an unfortunate one. Mr Guerra has been harried from the government by revelations concerning the wealth amassed by his brother Juan while running his private office at the government's headquarters in Seville.

Free ski tip

■ Want a virtually free weekend skiing trip to Bad Gastein, Helmut Kohl's favourite Austrian watering hole?

If so, write quickly to National Home Loans, biggest of the UK's wholesale mortgage lenders. Let them know that you are planning some in-depth research into the company and you just might be squeezed on to this month's investment analysts' freebie; sorry, company presentation.

But why hold it in an Austrian ski resort? NHL does not own the local Sparkasse and hopefully has not lent lots of money on over-priced Austrian skiing condominiums.

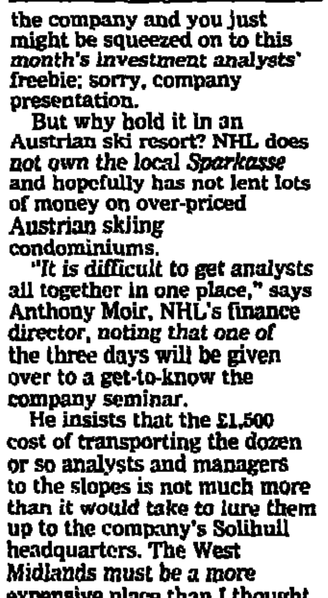
"It is difficult to get analysts all together in one place," says Anthony Moir, NHL's finance director, noting that one of the three days will be given over to a get-to-know the company seminar.

He insists that the £1,500 cost of transporting the dozen or so analysts and managers to the slopes is not much more than it would take to lure them up to the company's Solihull headquarters. The West Midlands must be a more expensive place than I thought.

It is one thing for dud companies like Polly Peck and Dominion International to take analysts on exotic trips. But the £130m NHL is a reputable company, albeit with a weakness for paying its bosses more than the chief executives of the UK clearing banks.

Shareholders at NHL's annual meeting – noon today at London's Stationers Hall – should ask whether they can be included on the ski party. Then perhaps NHL could justify buying a corporate jet.

OBSERVER



Coining it

■ Where are the world's most profitable payphones? No, they are not in a Las Vegas casino, nor are they to be found in the military encampments in the Saudi desert. They stand in the lobbies of a handful of Moscow hotels and at the airport, to serve passing western businessmen.

The 40 payphones have been installed by a joint-venture between the Moscow telephone service and GPT, the British telecommunications equipment manufacturer, which is jointly owned by Britain's GEC and Germany's Siemens.

British Telecom's 90,000 payphones may be doing little more than breaking even, but Moscow's Lancashire-built call boxes are coining it in. The average income from the Moscow phones, which are operated by pre-paid cards or credit cards, is £1,000 a week in hard currency.

The most profitable are taking £2,000 a week. If the joint-venture develops as planned it should be earning about £5m a year from no more than 100 payphones.

Perhaps Moscow should think about importing that other indispensable item of the British telecommunications industry – Professor Bryan Carsberg, the director general of Oftel, the industry regulator. Surely he wouldn't countenance such huge monopoly profits.

Say that again

■ The ultimate get-rich-quick scheme. Buy 50 female pigs and 50 male deer.

Then you will have a hundred sows and bucks.

Edward Balls assesses how government policy can encourage private savers

Major promotes savings graces

Thrift went out of fashion in the 1980s, in Britain and in the rest of the developed world. Mr John Major, the British prime minister, sees it as a virtue to be encouraged and is making the need for more UK savings a central theme of his premiership. Is the level of savings a legitimate target of economic policy, and, if so, what can Mr Major do to raise savings?

In 1988, individual households in the UK saved, on average, only 5.3 per cent of their total disposable income, down from 11.1 per cent a decade earlier. But the sharp fall in personal sector savings, particularly between 1986 and 1989, was offset by a recovery in the corporate savings rate and a rise in government savings, as the central government budget moved into surplus in 1987. If the government raises more revenue than it spends, it tends to raise the level of savings. If it runs a budget deficit, it reduces savings. The sum of the savings (or net borrowing) of the personal, corporate and government sectors equals overall national savings.

As a result, UK gross national savings in the 1980s remained relatively stable, at about 16.5 per cent of gross domestic product. But this was a lower figure than in any of the other advanced industrialised countries within the Group of Seven, except the US. In 1988, for example, gross national savings equalled 33.3 per cent of gross domestic product in Japan, 24.5 per cent in Germany and 20.5 per cent in France.

A lower level of national savings means more consumption today, but less accumulation of wealth for consumption in the future. Mr Major has argued that higher saving would increase "individual choice and self-reliance". But if individuals prefer to consume more today, rather than save to consume tomorrow, does the government know better? Does it have the right to alter the spending patterns of voters?

Yes, if the low level of private savings is itself partly a result of government policy. The UK tax system makes consuming today rather than saving for the future more attractive than it would otherwise have been in the absence of a tax on savings. Most savings in banks or building society accounts or shares in the UK are effectively taxed twice. All savings are made out of after-tax income, but the interest or dividends on these savings are taxed again.

The negative effect of this double-taxation is increased when inflation is high. Imagine a basic-rate taxpayer with a deposit account paying 12 per cent interest. Eliminating underlying inflation, of about 8 per cent, gives a pre-tax real return of 4 per cent. But income tax takes a quarter of the nominal interest paid leaving the saver with a mere 1 per cent real after-tax return. A top-rate taxpayer would actually have made a negative real return in such an account. But if inflation were zero, precisely the same 4 per cent pre-tax real return would leave the basic-rate saver with a 3 per cent after-tax return.

Even if interest on savings were exempt from tax and there were no inflation, national savings might still be low. They might be considered undesirably so if low national savings depress domestic investment and economic growth. Indeed, Mr Major has argued that higher savings would "spur the aggregation of national wealth" by providing "the resources from which investment could be taken over the next 10 years". What evidence is there to justify this claim?

Over the past 30 years, those countries that have saved a relatively high proportion of their national income – Japan and Germany – have also invested a relatively high proportion in new industrial plant and machinery. Countries with low national savings rates – the US and the UK – have correspondingly poor investment records. Furthermore, countries that have saved and invested a greater percentage of their national income have also experienced higher rates of productivity growth, because more and, above all, better machinery brings more efficient production, so raising output per worker.

Will a rise in national savings increase domestic investment? Yes, unless the increase in savings is soaked up by the borrowing requirements of foreign companies or governments. Over the past decade the ability of companies and governments in industrialised countries to borrow from overseas has, in fact, increased. Government restrictions on the outflow of domestic savings have been removed in Japan and in many European Community countries, while financial institutions now offer an international service. As a result, investment in the UK rose from 19.7 per cent to 21.9 per cent of GDP between 1985 and 1989, despite a largely unchanged level of national savings.

Yet even in the 1980s, high-savings countries such as Japan and Italy have invested more of their national income than low-savings countries such as the UK and the US. In the 1960s a $1 rise in gross national savings appeared to lead to an average 91 cent rise in domestic investment among member countries of the Organisation for Economic Co-operation and Development. Between 1980 and 1987 a $1 rise in savings still produced 61 cents of domestic investment.*

Why does the link between national savings and investment still exist? In part because lending overseas is both riskier and costlier more costly than investing at home. One of the most important risks is that of exchange rate changes, which is one reason why economic and monetary union is thought to be a necessary counterpart of economic integration within the EC.

Interestingly, the link between domestic savings and investment appears much weaker in EC countries, where only 36 cents of the extra $1 saved was retained as investment in the 1980s compared with 74 cents in the 1960s. Greater economic, financial and political integration weakens the preference for investment at home. None the less, the link between domestic savings and investment still remains.

What can the government do to raise the level of national savings? It can encourage saving by households, companies or it can save more on their behalf. But even if it can raise the savings of one sector, it may not increase the overall level of national savings by an equivalent amount.

By providing tax shelters for new savings, the government can raise the return to personal savers. The higher return makes saving more attractive, which would tend to increase them. But the higher return also raises future interest payments from the existing stock of savings, so the saver can save less and still be as well off in the future. The net effect could be either to increase or reduce personal savings.

Happily, the evidence suggests that pro-saving tax shelters raise personal savings. The US government introduced tax-exempt retirement accounts in the early 1980s. Research** has since shown that up to 55 per cent of savings in the accounts represented new saving, while the remainder was transferred from less tax-favoured accounts.

A further complication arises, because tax breaks reduce tax revenue and thus government savings, unless expenditure is correspondingly reduced. The same US study showed that 35 per cent of the rise in household savings was offset by reduced tax revenue, leaving only a 20 per cent rise in national savings.

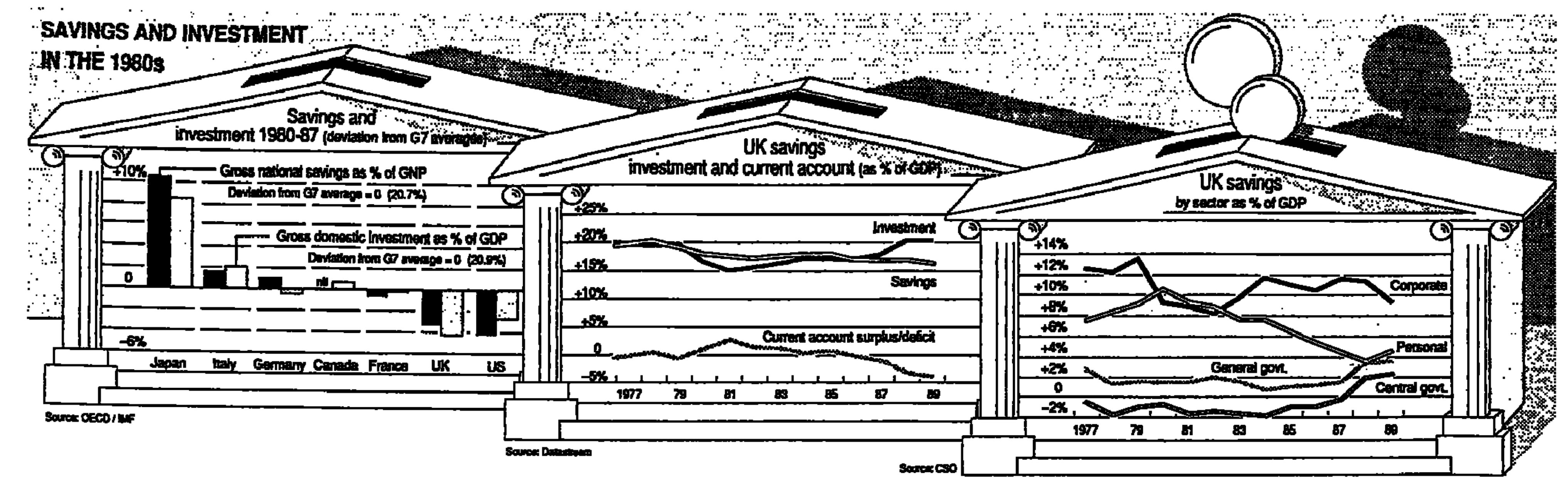
The most immediate way for a government to raise national savings would to improve its fiscal balance. But if individuals realise that increased government savings will reduce their future tax burdens, because there will be less interest to pay on government debt in future, they are likely to reduce their own savings. The initial rise in national savings may, therefore, not be sustained.

Companies, like governments, ultimately save on behalf of private individuals – in the company's case, its shareholders. Efforts to raise corporate savings – by using the corporate tax system to penalise profits paid out in dividends rather than retained for reinvestment, for example – seem to provoke an offsetting fall in personal savings.

Nationalising saving by running a permanent budget surplus is probably not a realistic option for Mr Major. Households have recently begun to save more, as the economy has entered a recession. But this rise has been offset by a fall in the government budget surplus and a deterioration in the financial state of the corporate sector. A permanent increase in the overall level of national savings – however desirable – may prove elusive, unless Mr Major can also convince the electorate of the virtues of higher saving.

* *Martin Feldstein and Phillipe Bacchetta, "National Saving and International Investment", National Bureau of Economic Research Working Paper No 3164, 1989.*

** *Stephen Venti and David Wise, "IRAs and Saving", reported in "The Role of National Saving in the World Economy", IMF Occasional Paper No 67, 1990.*



How to make thrift pay

The most important pro-saving innovation of Mr John Major's only Budget as chancellor was the tax-exempt special savings account, the Tessa, which has been taken up enthusiastically by the public since becoming available earlier this month, writes Edward Balls.

Up to £9,000 can be deposited in a Tessa, with interest paid free of tax provided no withdrawals are made during the five-year life of an individual account. The maximum first-year deposit is £3,000.

The UK tax system has traditionally inclined individuals towards saving in owner-occupied housing and pensions – rather than in shares or deposit accounts – where more than 50 per cent of personal-sector net wealth is held. Both owner-occupied housing and pension funds are exempt from income tax and capital gains tax. Interest on the first £30,000 of mortgage borrowing is also tax-free, effectively subsidising house purchase.

A limited form of tax exemption was extended to individually-owned shares through Personal Equity Plans (Peps) which were launched in January 1987. The Pep allows savers to build up a portfolio of shares, held with an authorised plan manager, to a maximum value of £6,000 in the 1990-91 financial year. Dividends and capital gains are then exempt from income tax and capital gains tax.

Since Tessas were introduced, all the main forms of personal savings offer some relief from taxation. The UK tax system is therefore moving – slowly, erratically and inconsistently – towards a system of taxation of expenditure, in which the return on savings is untaxed, but all spending is subject to tax.

Extending tax exemptions to cover shares and limited bank and building society accounts, levels up the "playing field" among different kinds of saving and different kinds of intermediary. Savers can thus choose on the basis of the intrinsic merits of an investment rather than on the basis of what governments consider ought to be promoted.

Why not simply abolish taxation of savings altogether? The government wants to encourage saving but it also wants to tax the return on accumulated wealth. Removing the taxation of interest income would deliver substantial, and perhaps unfair, windfall gains to existing savers at great expense to the Treasury. The overall effect could be to reduce national savings.

Instead the government is gradually extending tax exemptions which favour small savers. The Institute for Fiscal Studies has proposed a possible next step – amalgamate Peps and Tessas to create Extended Personal Equity Plans (Expeps) with an upper limit on new savings of £10,000 per year.

Perhaps this is an over-ambitious objective for the coming Budget – an increase in the upper limit on savings in Tessas is a more likely intermediate step.

LETTERS

Pension fund surpluses should make nobody's eyes light up

From Mr Paul Haines.

Sir, It is quite right to highlight (Lex, January 3) that recent changes in legislation may cost pension funds, and the companies which sponsor them, a lot of money. However, several of the assertions which accompanied this statement are misleading.

The implication that part of the role of a pension scheme is to accumulate assets to bail companies out of any future problems is erroneous. Quite apart from the fact that this would be an abuse of taxation privileges, many companies would say that monies not needed to cover known liabilities would be better used within the business itself.

Secondly, the legislation will be an additional cost whether surpluses remain or not. It is dangerous to assume that the cost of providing pension benefits is the same as the contribution paid into the pension fund – indeed, it was to overcome this very point that SSAP 24 was introduced.

Finally, short-term stock market values will only affect the financial status of most pension funds if this reflects a downgrading in estimates of future dividend earnings. Surpluses have accrued over the past 10 years because dividend earnings have been ahead of expectations, not because market values have increased (although clearly the two are related).

There is clearly a need for companies to control the financing of pension funds. Companies need to obtain actuarial advice relevant to their own circumstances and objectives, and to implement contribution and investment strategies which support these.

Paul Haines,
Noble Lowndes & Partners,
Norfolk House,
Wellesley Road,
Croydon, Surrey

The over-75s: a forgotten class

From Mr Alan S. Harris.

Sir, The Inland Revenue has just issued leaflet IR119 which gives guidance to those not liable to income tax and who will therefore be able to arrange for the interest on their accounts to be paid with no tax deducted from April 6 1991.

The leaflet attempts to cover all the categories of people who might normally expect to be in this position: children under 16; students; pensioners under 65; pensioners 65 and over; and "all other adults" who expect their income to be less than the basic single or married person's allowances.

However, the leaflet completely fails to address the position of pensioners aged 75 and over who have higher allowances than those in the 65–74 bracket. Therefore the section in the leaflet headed "pensioners 65 and over" is incorrect, and the leaflet therefore appears to class pensioners over 75 in the same category as "all other adults", which is also incorrect.

Obviously, therefore, pensioners over 75 may be given the impression that either their allowances are lower than they actually are, or alternatively that they are not entitled to arrange for interest to be paid without tax deducted if their income is over £3,670 but under £3,820 (single person) or over £5,815 but under £6,005 (married man).

The local Inland Revenue inquiry office has confirmed both that pensioners aged 75 and over *are* entitled to register in the above circumstances; and that this information has been omitted from the leaflet in error.

Alan S. Harris,
director, Harris Investment Management,
Lion Chambers,
170 Hope Street, Glasgow

Sterling and silver

From Mr Richard Hunter-Gordon.

Sir, Paradoxically, increased savings, whether public or private, may not prevent the demographic nightmare ("The pensions debacle", January 4). As the ageing save more, domestic asset values are driven up (the "illusion" of adequate retirement provision). Then these savings are converted into the purchase of labour precisely when there are more old than working. Asset prices could fall just as the old cash in their homes to bid up the price of home help.

If you're going to save more for retirement make sure you invest in different asset classes from your silvering peer group.

Richard Hunter-Group,
6 Albermarle Street, W1

Gatt Services Agreement needs priority attention

From Sir Michael Palliser.

Sir, The director-general of Gatt has set January 15 as the date for the first formal meeting in Geneva following the suspension of the Uruguay Round negotiations in Brussels early in December. At present he is carrying out intensive discussions with government on how to resolve the deadlock on agriculture.

A great deal of progress was made last year on drafting a sound services agreement, but much technical work remains to be done. A way must now be found of enabling the services negotiators to resume discussions immediately after the meeting on January 15. Only thus can the ground be cleared in time for the unresolved and difficult political issues to be addressed, as soon as Mr Arthur Dunkel has indicated that negotiations on all Uruguay Round areas can recommence.

Once the shape of the Services Agreement framework has been clarified, attention can turn to the all-important initial liberalisation commitments which are the main aim of the process. There is all too little time before the US congressional deadline on March 1 for this to be achieved, as it must, if the invaluable work of the past four years is not to be lost. I feel sure that our counterparts in the US would be at one with the EC in urging this course on the negotiators.

Michael Palliser,
chairman, Liberalisation of Trade in Services Committee and European Community Services Group,
Windsor House,
39 King Street, EC2

Banana confidence too high

From Mr John Wakely.

Sir, Your article ("Blending sources to sweeten the banana jitters", December 28) regarding the banana producer Geest and its plans to counter EC import rule changes, has all the signs of another UK company vastly underestimating the competition. The free banana market in Europe operates at prices that are often 30 per cent below the UK.

While the quality of West German supermarket brand bananas may be poor, the article makes no reference to Chiquita, which has 45 per cent of the market, with a quality that gives a 20-25 per cent price premium. Indeed, sourcing from Latin/Central America for over 100 years, Chiquita operates in no market where it does not have a price premium.

Windward Islands bananas suffer not only from a high price (mountainous islands are not exactly ideal for low cost production) but increasing quality problems (blackening). Geest will not only have to establish distribution in Europe at a time when its dominance of the UK market is under attack, but learn to source from new areas where its competitors own vast tracts of acreage. It won't be easy.

John Wakely,
food and beverage analyst,
Lehman Brothers International Research Department,
One Broadgate, EC2

Insurance no answer for directors

From Mr N.H. Smith.

Sir, I read with interest Mr Clive Boxer's excellent summary of the case of *Kuwait Asia Bank EC v National Mutual Life Nominees Ltd* ("Thin dividing line for directors", December 13).

Unfortunately, I fear his recommendation that the directors of a big financial institution should be "fully protected by insurance" is likely to be impracticable. The potential liability of such directors may run into hundreds of millions of pounds, and even if they were able to find adequate cover in the market (which I doubt), the cost would probably be prohibitive.

Save for certain exceptional circumstances, it seems unreasonable that the personal assets of the directors of a company should be exposed when those of the shareholders are protected by limited liability. Parliament should address this.

N.H. Smith,
Hextall, Erskine & Co,
28 Leman Street, E1

FINANCIAL TIMES
Monday January 14 1991

SPANISH RESHUFFLE LIKELY

González' ally resigns as deputy premier

By Tom Burns in Madrid

Spanish deputy premier Alfonso Guerra: resignation demanded

MR Alfonso Guerra, the closest political ally of Spain's prime minister Felipe González for the past 25 years, tendered his resignation as deputy premier at the weekend, paving the way for a government reshuffle and fundamentally altering the balance of power in Spain's eight-year-old Socialist government.

Mr Guerra, 49, who became the number two in the government when Mr González won a landslide electoral victory in 1982, said he was leaving the cabinet to ease the ministerial changeover and would dedicate his activities to the Socialist party, of which he is deputy leader. The resignation was accepted by the premier and will be announced to the party executive today.

His resignation had been demanded for 12 months by opposition parties in the wake of a scandal concerning his younger brother, Mr Juan Guerra, who allegedly enriched himself while running the deputy premier's private office at the government's headquarters in Seville.

The scandal, which is being judicially investigated, greatly discredited the deputy premier and divided the cabinet.

Mr González is now faced with the difficult choice of either dropping Treasury minister Mr Carlos Solchaga, the most public of Mr Guerra's ministerial enemies, from the cabinet in the interests of party unity, or keeping on the experienced economy minister at a time of looming recession.

Two other stalwarts of the González administration, foreign affairs minister Mr Francisco Fernández Ordóñez and defence minister Mr Narcís Serra, are expected to remain in the government, because of the Gulf crisis, but analysts expect the prime minister to announce sweeping changes in other departments.

Mr Guerra's resignation brings to an end an extraordinarily close political partnership that dates from the mid-1960s, when Mr González and Mr Guerra joined the clandestine and tiny Socialist party in their home town of Seville and set out together on the road that would lead them both to power.

Increasingly involved in international affairs and casting himself as a European statesman, Mr González delegated much of the day-to-day running of the government to his deputy. The hard-working Mr Guerra chaired the committees that prepared cabinet business, had a say in political appointments and exercised considerable control over the state-run television and radio networks.

The absence of the once powerful Mr Guerra will force the premier to deal more directly with government affairs and to seek a greater consensus among senior ministers.

Mr González also almost wholly delegated to Mr Guerra the running of the party; Mr Guerra personally managed all the premier's electoral campaigns, drew up the lists of socialist candidates and supervised manifestos.

Mr Guerra pledged in his resignation speech that the party would maintain its total support for Mr González.

Major rules out general election in early spring

By Ralph Atkins in London

MR JOHN MAJOR, the British prime minister, has ruled out a general election early this spring, saying he had "never been a cut and run merchant".

The prime minister dismissed any suggestion of an "imminent" poll. "We have some work to do before the next general election. We'll get on with it," he said in an interview on British breakfast-time television yesterday.

Mr Major's remarks quashed speculation that he might seek a personal electoral mandate or that the Conservative party he leads might seek to capitalise on the "honeymoon" period enjoyed since his election as leader in November.

Asked if the tasks he had set the government before the election could be completed within weeks rather than months, he said: "It would be a miracle".

His comments underline how the political caution which characterised Mr Major's tenure as chancellor of the exchequer has continued under his premiership. An election in late February or March has had the support of many Tories.

An election must take place before the summer of 1992, but Mr Major is unlikely to want to wait until the last moment because of the fear of being boxed in. That makes June or October this year the most likely dates.

After Britain's entry into the European exchange rate mechanism in October, many Tories believed there would be a "window" this spring when interest rates and inflation would be falling.

With the economy now clearly in recession and the Gulf crisis developing, Mr Major's decision on timing is likely to be influenced heavily by the May local election results.

China seeks greater influence over Hong Kong ahead of 1997

By John Elliott in Hong Kong

CHINA yesterday stepped up its campaign to secure a significant say in Hong Kong's affairs ahead of the colony's return to Peking's sovereignty in 1997.

Officials claimed the right to speak on behalf of Hong Kong people and called for negotiations on all big infrastructure projects.

This was spelt out after three days of talks in Peking between China and Hong Kong on the colony's proposed HK$79bn ($10.2bn) international airport ended in disagreement and mutual recrimination.

"The present Hong Kong government is a colonial government set up by the British in Hong Kong," said Luo Jiahuan, the blunt and outspoken leader of China's delegation at the talks. "It cannot speak for the future special [post-1997] administrative region of Hong Kong. Only the Chinese people's government can speak for Hong Kong people".

Luo proposed six months of consultations to discover the Hong Kong population's wishes on the airport. He criticised Hong Kong for designing an unnecessarily extravagant project and said China had not been given sufficient financial information at the talks.

Luo's demands, taken at their face value, could amount to a serious infringement of the Sino-British Joint Declaration of 1983, which guarantees Hong Kong a high degree of autonomy for 50 years after 1997.

The British Foreign Office and Hong Kong's government will now consider how to react. They are concerned that a visit to Peking later this month by Sir David Wilson, Hong Kong's governor, could be upset.

Hong Kong officials yesterday denied Luo's allegations and insisted that China had no right to interfere in the colony's administration before 1997.

They acknowledge that there can be consultations on big projects, such as the airport, which will not be completed before 1997. But they reject negotiations.

Peking is concerned about the international debt it will inherit in 1997 and has decided to use the airport to try to expand its right to intervene.

South Africa breaks coal trade isolation with shipments to UK

By Gerard McCloskey in London

SOUTH AFRICA has sold coal to the UK electricity industry for the first time since the regime was isolated by the world community.

Northern Ireland Electricity (NIE) has bought a shipment of 27,000 tons from the South African coal exporting terminal at Richards Bay, via Shell Coal International. A second similar shipment is on its way.

This is a blow to British Coal, the state-owned corporation, which until recently has had an almost monopoly control of supplies of coal to the UK electricity market.

Although it is not illegal to import South African coal into the UK, as it is in Denmark and the US, the British power companies have refused to accept it for the last 20 years.

Details of the two shipments are contained in today's issue of International Coal Report, a Financial Times newsletter. The newsletter also reports a sudden expansion of Northern Ireland Electricity imports from around the world as a result of Britain's entry into the European exchange rate mechanism, which has made dollar-denominated coal imports extremely competitive in Britain.

The South African move into the fast-growing UK electricity coal import market comes as countries which have formerly placed restrictions on purchases from South Africa are reviewing their policies.

The sales to Northern Ireland Electricity is a blow to British Coal, since NIE pays a lower price to BC than any other British power company. It buys Scottish opencast coal from a designated mine at around £31.90 ($61.56) a tonne, while National Power and PowerGen have to buy mostly from deep mines at just over £42 a tonne.

The price paid by Northern Ireland Electricity for its South African imports is understood to be $44.50 a tonne.

Although UK power companies have refused until now to buy from South Africa, "Dutch" coal – South African coal imported from the Netherlands – has frequently been blended with UK coal.

Further inroads by South African suppliers into the UK would add to the problems British Coal faces in the competitive power market. Last week BC began an anti-dumping action against sales from a number of countries. Although South Africa provides the cheapest large-volume supplies of steam coal to world markets, no one has suggested that it is being subsidised.

Gulf banks may close if conflict breaks out

By David Lascelles, Banking Editor, in London

THE OUTBREAK of war in the Gulf would deal a severe, in some cases fatal, blow to the region's banks, already badly weakened by the invasion of Kuwait last August.

Capital Intelligence, the Cyprus-based credit rating agency which specialises in Middle East banks, predicts that some of the Gulf's smaller and more exposed banks would have to close down for good. "Like everyone else, the banks are holding their breath" said Mr Don Kahrs, the agency's chief analyst. Last week the agency suspended all its Gulf ratings because of the threat of hostilities.

If there is a war, bankers are hoping it will be short and decisive to end the uncertainty. The invasion caused a massive outflow of capital which has never been reversed, leaving local markets stagnant, and banks ill-equipped to handle major disruptions.

Greatest tension is being felt in Bahrain, the Gulf's largest banking centre. Arab Banking Corporation, the Gulf's leading bank, is finalising plans to shift its centre of operations to London in the event of war. An announcement is expected today. Gulf International Bank, Bahrain's other principal bank, is laying off expatriate staff and closing foreign branches to save money.

Banks in other centres like Saudi Arabia, Abu Dhabi and Oman are said to be conducting business as best they can in an area living under the threat of war.

Only two Kuwaiti banks are now operating. The National Bank of Kuwait, the country's largest, has managed to reconstitute itself in London and hopes to reincorporate itself as a UK bank soon, Mr Ibrahim Dabdoub, the chief general manager, said last week. If there is a war and Kuwait is liberated, his bank will play a leading role in the reconstruction.

The London-based United Bank of Kuwait is also getting back to normal but the losses caused by last year's upheavals will force its 1990 results into the red, according to Mr Christopher Keen, general manager. He is hoping that, should there be a war, other banks will not pull the plug as they did last August. "I hope people will react with more wisdom this time," he said.

Sheikh Abdul-Aziz, Kuwait's central bank governor now operating in exile in London, said last week that he hoped Kuwait banks could soon be released from the freeze imposed on them by western nations to prevent Iraq seizing Kuwaiti assets. This would enable them to settle their debts to other banks. But none apart from UBK and NBK have any hope of resuming normal business until Kuwait is liberated.

Markets braced for war turbulence, Page 3

Troops shatter hopes of independence

Continued from Page 1

"This is the last radio in Lithuania. Maybe these are its last minutes," said the announcer, who then went on to report the latest casualty toll from the events in Vilnius.

At Lithuania's parliament they are preparing for a final Soviet onslaught. "We expect the saddest events," commented one of the unarmed policemen on guard in front of the assembly. "Once you have crossed one boundary, it doesn't make much difference if you cross it again."

As he spoke, youths dragged wooden boards, steel sheets and iron grills across Independence Square in front of the assembly building to form barricades which could be crushed by tanks in seconds. A Beethoven broadcast from the parliament's loudspeakers switched abruptly to instructions from President Vytautas Landsbergis asking the crowd not to resist attack. "Our weapon should be the shield, not the sword," he said.

The 50,000-strong crowd burst into applause, shouting "Lietuva! Lietuva!"

"This day will decide our fate," Mr Landsbergis continued. "On this day depends whether we can continue our path towards independence. If they stop us today, Lithuania will continue in the hope and belief we will succeed in the end. Our duty is to suffer this day, whichever way it leads us. Do not show your hatred. Turn your backs and go your way."

The crowd resumed its chanting, with cries of "Landsbergis! Landsbergis!" followed by singing and prayers.

Then the next blow, as Mr Landsbergis announced that the prime minister elected only two days ago, Mr Albertas Simenas, had disappeared, and that a new prime minister had been named. He is another economist, although the economy seems the last thing in anybody's mind at this moment.

The parliament met in all-night session inside the building. One of its main tasks was to empower the Lithuanian foreign minister, Mr Algirdas Saudargas, to form a government in exile. He is on a visit to Poland, as part of a policy to have one government minister out of the country at all times. The decision was announced as dawn began to break.

It followed a day of confused and conflicting information from the Red Army and the Communist party, the two bastions of Lithuania's intended salvation.

In the plush headquarters of the Soviet Communist party, the local ideology chief, Mr Juozas Jermalavicius, said it was only a matter of time before a "national salvation committee" took power.

An overweight man with a shiny face who read nervously from notes, Mr Jarmalavicius could not say how this would come about. Nor would he identify members of the committee, claiming he had not been told who they were because the situation was "not without danger". He said his only contact with the committee was by telephone.

"Since March 11 [the day the Lithuanian parliament declared independence] there has been no government in Lithuania, only attempts to introduce bourgeois government."

Two hours later, Major-General Vladimir Uskhobchik, the commander of the Vilnius garrison and two other senior officers, said they had heard about the national salvation committee, but had "no contact" with it.

Asked why the army had despatched armoured vehicles periodically to the television tower over the past few days, he said: "Those are just manoeuvres."

War as a substitute for a New Deal

By Anthony Harris

The Chevening weekend marks the start of the open season on budget guesswork; and there is remarkable unanimity on what Mr Norman Lamont, the chancellor, is likely to do, give or take a bonfire of the vanities in the Gulf.

The guesses at what is pompously called Budget Judgment – or more often misjudgment – look pretty plausible. I find them a good deal less plausible when they explain the why's and wherefores.

If Saddam Hussein should unexpectedly come to his senses in the next few days, we may yet discover that this is not the right time for a neutral budget; but in the likelier event of war, the chancellor may find that he has done the right thing for the wrong reasons.

The official wisdom is that there is no sense in an activist budget, designed to offset the recession, because the timing would almost certainly be wrong, and because the automatic stabilisers – the loss of revenue and rise in welfare spending which will result from the recession – are quite powerful enough on their own. This means that the Treasury is now following a medium-term target for a cyclically corrected budget balance. This is a vast improvement on Thatcher Mark I, and in normal times would probably be as near an ideal macro strategy as could be devised. These are not normal times, though, for three reasons, two of them connected with the ERM. The mere fact of joining means that British monetary policy is quite largely determined by the needs of the German economy, which is totally out of synchronisation with our own.

This is to be expected: the current Euro-system works largely by sucking resources into Germany when conditions there are tight and pushing them out when demand is slack. This Continental see-saw produces a kind of stability, provided that the swings are not excessive and that all players have much the same rate of inflation. In inflation-prone Britain, by contrast, it has led to perverse results. In 1988 Mr Nigel Lawson started to shadow the D-Mark, and imported an over-lax monetary policy. That produced the inflation we are now fighting; and the fact that the see-saw has taken a violent tilt the other way, due to the costs of unification, could even be seen as a thoroughly helpful development. We need a tight monetary policy.

That is how it might have worked out if we had joined at a realistic rate of exchange; but in fact the rate was chosen by the government to punish employers for over-generous wage settlements (governments in a tight corner always punish their own supporters: Labour, in the same fix, forbade the unions from bargaining). The choice was endorsed by the Bank of England to act as a guarantee against backsliding on interest rates. (This is an old obsession in Threadneedle Street: it has grown up because the Bank is not independent. If you are not allowed to run monetary policy, you have to try to run the ministers instead.) This alone would guarantee a fairly obstinate recession, because Britain will not benefit much from the current account improvement which compensates other German trade partners for an imported monetary squeeze. What is likely to put the lid on it is the financial strain left over from earlier excesses. The UK is not suffering a credit crunch on the American scale, but there are thousands of small companies which would not know the difference.

'No macro policy change can be allowed . . . it is a time for ingenious tinkering'

So should the government after all use the budget to offset this triple squeeze? – an imported monetary policy, an over-valued pound and a bankers' panic? No, say the commentators, and no doubt the ministers too. The strategy depends on credibility, so some indexation of corporate tax, paid for by cuts in mortgage relief.

The suggestions look sensible in themselves; but it does not seem likely that they will win credibility for more than a few months. The reason is political as much as economic: a free-enterprise government can hardly maintain a murderous squeeze on profits for ever, nor can a government nearing election choose to stick to rising unemployment. A devaluation would solve both problems, as the markets are well aware; so every adverse opinion poll will put a strain on sterling, however tight the budget may be in cyclically corrected terms. Bear markets, of course, look at the actual deficit figures without making any learned corrections; so a budget which enlarged what will already be a fairly horrific borrowing requirement probably is out of the question. However, increased borrowing is not the only fiscal move which can help to soften a recession.

The classic Keynesian reflation was appropriate when the economy required a borrower of last resort, as in the 1930s, when high real interest rates were the result not of a squeeze, but of falling prices. That is hardly our trouble at the moment. The alternative, demonstrated by President Roosevelt in the New Deal, is to raise public spending without deliberate resort to deficit. It worked quite well even at a time when borrowing would have been appropriate. That could happen inadvertently as the result of a Gulf war; a bulge in public spending (though of a counter-productive kind), financed – as it should be – through taxes. This would help sustain activity, and so make the exchange rate strategy a little more politically credible. But if peace breaks out, leaving no offset to the private sector slump, we may face the US pattern of deepening disappointment.

Since peace would also mean that the oil glut which triggered the whole crisis would immediately reassert itself, the case for shorting sterling would become nearly irresistible. Buy airline shares instead.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	15	59	Berlin	S	4	39	Caracas	C	27	81	Faro	S	13	55	Islamabad	F	14	57
Algiers	R	10	50	Biarritz	C	8	46	Casablanca	S	15	59	Florence	S	14	57	Istanbul	S	9	48
Amsterdam	S	5	41	Bombay	S	25	77	Chicago	C	-7	19	Frankfurt	F	4	39	Jakarta	R	30	86
Athens	S	16	61	Bordeaux	F	7	45	Cologne	F	5	41	Geneva	C	4	39	Jersey	S	6	43
Bahrain	R	18	64	Boulogne	F	5	41	Copenhagen	S	4	39	Gibraltar	S	14	57	Johannesburg	S	26	79
Bangkok	F	34	93	Brussels	S	4	39	Corfu	F	15	59	Glasgow	S	-1	30	Lima	F	24	75
Barcelona	S	10	50	Budapest	C	7	45	Dallas	S	-1	30	Helsinki	S	-10	14	Lisbon	S	8	46
Beirut	-	-	-	Buenos Aires	C	25	77	Dublin	S	5	41	Hong Kong	R	14	57	London	S	4	39
Belfast	F	3	37	Cairo	F	20	68	Dubrovnik	C	12	54	Innsbruck	F	3	37	Los Angeles	S	12	54
Belgrade	Fg	4	39	Cape Town	S	23	73	Edinburgh	S	1	34	Inverness	S	0	32	Luxembourg	F	4	39

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	C	17	63	Milan	R	6	43	Nicosia	S	19	66	Salzburg	R	3	37	Tenerife	F	19	66
Madrid	S	7	45	Montreal	F	-17	1	Oporto	S	10	50	San Francisco	C	12	54	Tokyo	S	10	50
Majorca	C	9	48	Moscow	C	1	34	Oslo	S	-10	14	Seoul	S	-3	27	Toronto	S	-12	10
Malaga	S	15	59	Munich	Sl	2	36	Paris	F	5	41	Singapore	-	-	-	Tunis	F	15	59
Malta	S	17	63	Nairobi	F	24	75	Peking	S	3	37	Stockholm	C	-9	16	Valencia	S	13	55
Manchester	S	2	36	Naples	S	12	54	Prague	C	2	36	Strasbourg	F	5	41	Venice	C	10	50
Manila	F	32	90	Nassau	C	28	82	Reykjavik	R	5	41	Sydney	F	25	77	Vienna	C	6	43
Melbourne	C	21	70	New Delhi	-	-	-	Rhodes	S	18	64	Taipei	C	16	61	Warsaw	F	2	36
Mexico City	C	21	70	New York	C	1	34	Rio de Janeiro	R	34	93	Tangier	F	13	55	Washington	C	3	37
Miami	C	15	61	Nice	C	13	55	Rome	S	14	57	Tel Aviv	-	-	-	Zurich	R	3	37

Temperatures at midday yesterday C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sunny Sl-Sleet Sn-Snow T-Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
Monday January 14 1991

INSIDE

Brent Walker banks waive debt deadline

Creditors of the heavily indebted leisure group, Brent Walker, have waived a deadline by which the company had agreed to produce a refinancing agreement. Richard Lapper reports on evidence that the banks are taking a more relaxed attitude to Brent Walker's problems following boardroom changes. Page 16

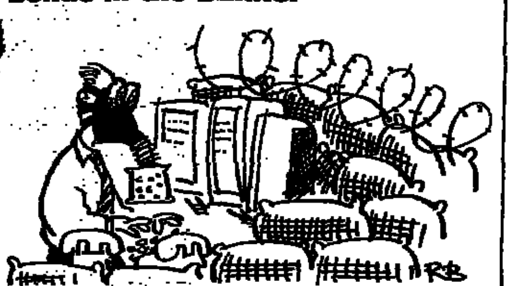
Handling Fairfax with care

For years, the John Fairfax media group has been long on excitement and short on strategy. But the arrival of receivers in early December could change all that. The receivers, called in over debts built up by Warwick Fairfax (left) to finance a take over, are determined to avoid a break-up of the Fairfax titles. This could restore an element of stability to the embattled group, reports Kevin Brown. Page 17

Beyond the shadows of doubt

Sentiment in the Italian bond market is still showing the bullish longer-term undertone seen during much of 1990, when volumes surged on the back of rising foreign demand. But the Gulf crisis has taken its toll in the short-term, as speculative activity has driven daily turnover down. Once the Gulf shadow clears, however, attention should focus again on the more positive prospects for Italian bonds. Haig Simonian reports. Page 20

Bonds in the bunker



The possibility of war in the Gulf has cast a cloud of uncertainty over the world's bond markets. Sophisticated technology may have increased the amount of information available and improved the quality of markets, but it may also increase the chances of volatility being transmitted between them. Simon London looks at the possible scenarios as the world's bond markets prepare for war. Page 18

Market Statistics

Companies in this section

UK bourse opens to overhaul of trading

By Richard Waters in London

SIGNIFICANT changes to the way UK shares are traded take effect today amid claims that the new rules will distort the operations of the stock market.

The changes follow a two-and-a-half-year review of the market's operations. They are the first overhaul of trading since the Big Bang deregulation in October 1986.

The new rules were formulated by an International Stock Exchange committee chaired by Nigel Elwes of Warburg Securities. They are intended to smooth the workings of the market and produce a better balance between the interests of the large marketmakers and other users of the market.

However, some of the larger marketmakers are already warning that the new rules mean it will be impossible for them to make money. They hint that they will look for loopholes to protect themselves. This would distort the way the market operates. The changes include:

- Marketmakers must deal with each other at the prices they quote on the Seaq share price system. This obligation was suspended almost two years ago, amid claims that "fair weather" marketmakers were exploiting the larger houses by laying off risks on them.
- The details of many more transactions will be published as soon as they are carried out, to improve the visibility of the market. The largest deals will be published within 90 minutes, rather than staying secret until the following business day, as before. The next-day rule, also introduced in early 1989, was widely criticised by smaller houses as an attempt by the dominant marketmakers to force them out of business and re-establish a cartel of dealing firms. The Office of Fair Trading also condemned it.
- The practice by brokers of matching buying and selling orders from their clients, rather than putting the business through marketmakers, is replaced by a rule that all such business should be shown to marketmakers. This will give the marketmakers a chance to bid for the shares and so make it easier for them to operate.

Taken together, these rules mark a significant shift in the way shares are traded. In addition, the classification of shares into alpha, beta and gamma categories disappears today. It will be replaced by new, more precise categories.

Each company's stock has been allocated a "normal market size", based on experience of how many of its shares are traded in the typical deal. This so-called NMS determines how many of the stock market's rules will be applied to the dealings in particular shares.

For instance, only when a deal is worth more than three times a company's NMS will the 90-minute delay in publication be allowed. This is to allow a marketmaker time to lay off its risk after an unusually large deal and before competitors are alerted to its exposure. However, some large marketmakers warn that the 90 minutes is too short, and that dealing practice will change as a result.

Large bargains may be done only at the end of the business day. This will allow a firm time to lay off its risk in off-market trading before the deal is published the next day. Alternatively, marketmakers may use "protected orders". These are deals under which they agree to buy or sell shares at a set price, but which are kept open in case that improves during the day. That way, deals are not formally completed – or published – until the end of the day.

The use of protected orders is "very similar to what happens in practice in New York", said Mr Elwes last week. However, he warned that the practice would undermine the aims of the new London rules. "Clearly, if there was a major growth of protected orders, the Stock Exchange would have to revisit the whole area again," he said.

Justifying the 90-minute rule, Mr Elwes said: "If you take on an order and can't work it (lay it off) in 90 minutes, then it's likely to take you days instead."

Since Big Bang, marketmaking lies largely with three houses – Smith New Court, Warburg Securities and Barclays de Zoete Wedd.

A second handful of firms, including Kleinwort Benson, County NatWest and UBS Phillips & Drew, are thought to account for a further quarter of the market between them.

That leaves little for the remaining 20 or so marketmakers, many of which have been hurt particularly badly by the low level of stock market business since the start of the Gulf crisis.

The Elwes rule changes, which reflect in part the pressures of profitability and competition in the London market, are likely to affect this delicate competitive balance. It remains unclear, however, whether they will give a further stimulus to the growth of the large firms, or make it easier for others to hang on to their position in the market.

Markets on defensive as world prepares for war

BARRY RILEY

WAR IS an unfamiliar challenge for the modern financial markets. Other battles within recent memory have either been small, like the Falklands conflict of 1982, when little more than national pride was at stake, or have been long and slow-burning, like the Vietnam War of the late 1960s and early 1970s.

In Britain, the stock market was closed for part of the First World War, and during 1939-45 its operations remained fairly nominal in the face of price and dividend controls and strict capital market restrictions. The capital markets were harnessed to the task of financing the wars.

Now we are faced with the possibility of serious, if localised, hostilities breaking out which could involve the troops of the US, Britain, France and several other nations. Failure to defeat Saddam Hussein could have grave political and economic consequences. In an unprecedented way, this challenge would have to be responded to by a liberalised global market place operating across most of the 24 time zones in a day.

The stock markets would have to accommodate panicky knee-jerk sellers along with calculating, second-guessing traders and ice-cold strategists pursuing carefully thought out medium-term scenarios.

We know from the evidence of last Wednesday – when the stock markets rose on hopeful signs from Geneva, but collapsed on the ultimate failure of the Baker-Aziz talks – that peace is a bullish factor at this stage. But surely not peace on any terms. Any patched-up American deal with Iraq would carry the danger of a prolonged period of uncertainty in which the Gulf could flare up at any moment and the oil market be plunged into chaos.

So would war be reluctantly welcomed by the markets? Some strategists have developed the "buy on the bullets" theory, in which the equity market should be bought shortly after the outbreak of hostilities, perhaps leaving room for some panic selling at the outset. But this is dependent upon a quick victory by Western forces. If the victory should turn out to be slow and costly, the stock markets could wobble. And if enough oil wells were destroyed and oilfields rendered untouchable by chemical or biological contamination, the gamble might come unstuck.

There are too many ill-informed, pseudo-military strategists sitting in trading rooms around the globe for the stock market's reactions to a Gulf War to be taken too seriously. But there are several rational concerns at various levels.

First, there is the flight to safety argument. This has already produced some strengthening of the dollar, which has rallied from last year's low, despite the way dollar interest rates have been falling against the international trend. On the other side, there has been the weakness of markets in Japan, which perhaps is the country most exposed to the risks of an oil shock. As an economic giant but a military pygmy, Japan will suffer during any war scare.

Secondly, there is the petrocurrency angle. This should prove modestly helpful to sterling if the oil price rockets to $70 a barrel or more (although the extreme fears will not be realised unless Saudi installations are put out of action for a long time).

Thirdly, war is traditionally inflationary. In a world of considerable plenty it is unlikely (oil apart) that we will see anything like the general commodity price surge which was generated by the Korean War. The legacy of Vietnam, however, was a gradual undermining of sound money which led to the inflationary excesses of the 1970s (and, incidentally, to a nasty bear market for equities). Will the Americans increase taxes when there is a recession at home? Markets that only recently were eagerly anticipating the "peace dividend" are therefore less than prepared for a flood of unbudgeted spending.

At the very least, there will be an increase in government bond issues: they may be called Treasury 10½ per cent 2010 rather than War Loan, but they will be designed to pre-empt savings nevertheless. Hopes for a bull market in bonds could come in for a bit of a knock.

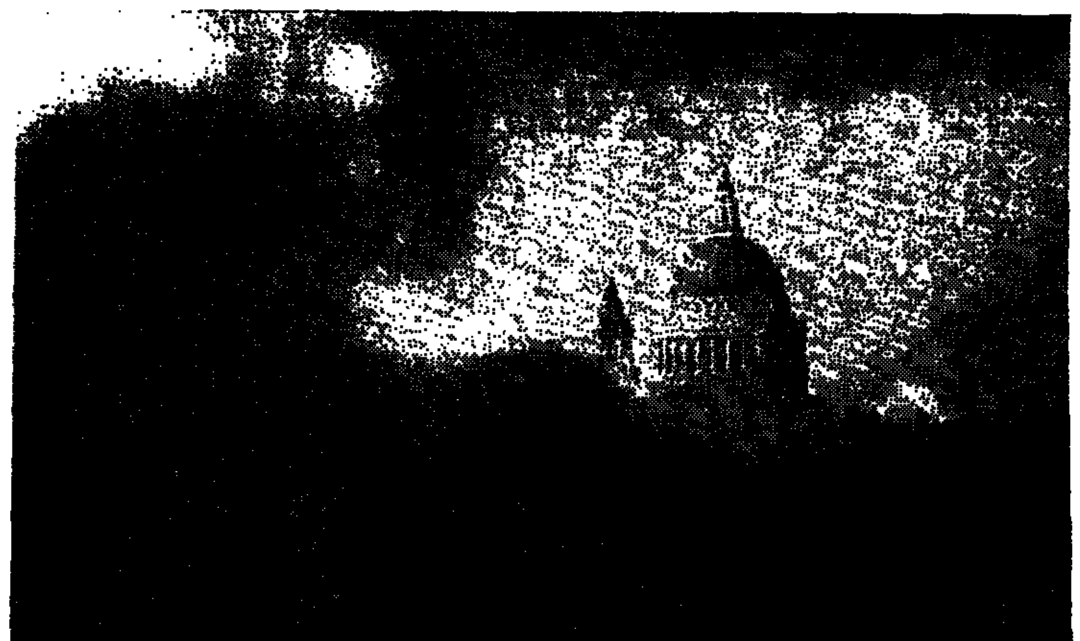
Finally, there are the imponderable after-shocks of a war. How long would it take for oil production to be restored? Would the Kuwaitis be massive sellers of their global securities portfolios to finance the rebuilding of their country? To what extent would the Americans be forced to maintain a presence in the Gulf to maintain peace after the hostilities had been halted? And would US taxpayers or Saudi sheikhs be willing to pay for this presence?

Might the Soviet Union take advantage of the cover provided by a Gulf war to crack down internally, and what would that do for confidence in the Deutsche Mark in particular and the EMS currencies in general?

The best one can say is that the markets are approaching the crisis in a fairly defensive posture. Real returns on bonds are exceptionally high, in Europe at least, and most stock markets are well below their peaks: a year ago the scope for panic in Tokyo, for instance, would have been much greater.

Money managers, however, really have no experience of dealing with the kind of developments likely to arise within the next days and weeks. Also, the quality of information from the front is liable to fall well short of the level required by the average professional investor as the basis for rational judgments.

If the 1987 stock market crash could happen for almost no reason, the consequences of genuine shocks could be violent indeed. The electronic global market was not designed for war. But it may have to be tested on active service.



London during the blitz: UK capital markets were harnessed to the task of financing the war

Economics Notebook: British fiscal policy

Debate heats up as chancellor sinks into silence

IT IS ironic that UK Chancellor Mr Norman Lamont and his officials in the Treasury should be sinking into the traditional pre-budget silence – known as purdah – just as fiscal policy is resurfacing as a live issue in British economic management.

A self-imposed public silence on matters fiscal will apply to the chancellor, his fellow Treasury ministers and their minions until Mr Lamont releases the secrets of his 1991 budget sometime in March.

But outside the Treasury, the debate over the future direction of British fiscal policy can be expected to grow as the recession worsens and the wider implications of UK membership of the exchange rate mechanism of the European Monetary System sink in.

At last Wednesday's meeting of the tripartite National Economic Development Council (NEDC), which Mr Lamont attended, both the Trades Union Congress (TUC) and the Confederation of British Industry (CBI) argued that more attention should be given to fiscal policy in managing the UK economy.

On the following day, the influential House of Commons Treasury and Civil Service Committee issued the final version of its report on the Autumn Statement – the government's interim budget and economic forecast. The committee warned that it would be "unwise for the chancellor to rule out the use of fiscal measures to affect the level of economic activity in all circumstances".

One cause of the new interest in fiscal policy is the apparent steepness of the economic downturn. Another is the realisation that in a fixed exchange rate system such as the ERM, the government will be less able than before to use interest rates as a short-term instrument to influence policy.

The view established by Mr Nigel Lawson during his time *as chancellor, that fiscal policy* is unsuited to short-term economic management, is therefore under challenge.

The TUC, in particular, believes that tax incentives can be effective in promoting industrial investment. In a paper presented to the NEDC meeting, it argued that this was shown – unintentionally – in the period of overlap between the old and the present corporation tax system.

According to the TUC, the change from one system to another created a temporarily favourable situation which illustrated how investment incentives could help revive an economy. Corporate investment jumped from less than 2 per cent growth in 1983 to 25 per cent in 1984 and 1985 before falling to less than 6 per cent in 1986.

The CBI, as might be expected, has been more cautious. In its paper to NEDC, it said "a stable framework of taxation and expenditure is helpful to business and should be promoted".

But it also called for less onerous corporation taxes and accelerated depreciation on investment for smaller firms, and reduced tax burdens for all businesses in the next budget.

As for Mr Lamont, he has declared that he is not a fiscal fine-tuner. He is generally thought to be in the Lawson mould, in so far as he favours tax neutrality.

But advocates of a more active fiscal stance have drawn some comfort from the new chancellor's apparent willingness to allow the so-called *automatic stabilisers in the tax* and government expenditure system take effect in the present economic slowdown.

In November, at the time of the government's Autumn Statement, members of the all-party Treasury Committee were unnerved to hear John Major, then chancellor, announce that the ratio of public spending to national income would not be allowed to rise strongly in the present period of weak economic activity.

Since taking over at the Treasury, Mr Lamont has said several times that he "sees nothing wrong" in the government running a "modest" budget deficit if output is below trend.

Cynics might argue that he has little option. The recession will inevitably slow tax revenues and increase government outlays on unemployment pay and increased social expenditure.

Few analysts believe that the government will achieve its goal of a planned £3bn ($5.7bn) surplus for the 1990-91 financial year. Treasury officials, in moments of candour before purdah took effect, admitted that this was one of the less "robust" elements of the government's already shaky economic forecast for 1991.

But new research* from the Organisation for Economic Co-operation and Development (OECD) suggests that neither Mr Lamont nor financial markets should worry about the slide into deficit. The Paris-based OECD has devised indicators of "fiscal sustainability" that indicate the UK government is in a better position to borrow than any other leading industrial country.

The OECD's findings could support those who say that the government should not rely on automatic stabilisers alone to pull out of recession, especially if it proves successful in lowering UK inflation. Advocates of this line claim that short-term interest rates cuts are themselves a form of fine tuning. And if interest rate cuts are precluded because of ERM membership, there should be other ways out of the dilemma.

In the weeks and months ahead, it would not be surprising to see suggestions for increased spending and fiscal measures that mimic some of the effects of interest rate cuts. Proposals could include short-term investment incentives, possibly taking the form of temporary tax credits. Other ideas could involve the temporary lowering of value added tax rates. There could be calls for more tax subsidies for savings or disincentives to borrowing.

There is an instrument on the statute book, known as the regulator, that would allow the chancellor to introduce such measures at short notice.

But such steps, even if desirable, would require Mr Lamont and the Treasury to make a heroic break with the practices of the past 10 years.

There is also an argument that advocates of fiscal activism have still to win. Although short-term interest rate changes may seem like fine tuning, they only work if they reflect market forces. There is no comparable safeguard to prevent short-term fiscal changes creating unwelcome distortions in the economy.

* *OECD Economic Studies, No 15, Autumn 1990, from OECD Publications, 2 rue André-Pascal, 75775 Paris Cedex 16. FF110.*

Peter Norman

Maxwell to float MGN by summer

By Andrew Hill in London

MR ROBERT MAXWELL, the publisher, plans to float off part of Mirror Group Newspapers before the summer.

However, the long-awaited public quotation will depend heavily on stock market conditions. The City of London is suffering from a dearth of share issues. As one banker put it yesterday: "Frankly, you couldn't float a rubber duck in this market."

MGN is a private vehicle for Mr Maxwell's holdings in the newspaper industry and the publisher and his family are likely to retain control of the group.

A team from Samuel Montagu, the merchant bank, is working on preparations for a sale of shares, which could put a value of at least £500m ($955m) on the company.

MGN's assets include the Daily Mirror and Sunday Mirror, as well as the Daily Record and Sunday Mail in Scotland. A Maxwell spokesman said The People would not be included in the flotation.

The popular Sunday title has already been earmarked for a separate management buy-out to be led by the paper's editor Mr Richard Stott.

Mr Maxwell first proposed flotation of MGN four years ago. At that stage he hoped it would go public in 1988, although he has never committed himself to a firm date.

Last July, the publisher revived the possibility when he commissioned a detailed valuation of the group from the consultant, Coopers & Lybrand Deloitte.

That was thought to have valued MGN at between £500m and £600m.

هكذا من الأجل

Brent Walker creditors waive debt deadline

By Richard Lapper

CREDITORS OF the heavily indebted leisure group, Brent Walker, have waived a deadline by which the company had agreed to produce a refinancing agreement, the company said yesterday.

Evidence that the banks are taking a more relaxed attitude to Brent Walker's problems has come following confirmation of long-expected boardroom changes.

At the end of last year a steering committee of Brent Walker creditors – including Standard Chartered, Hill Samuel and Svenska banks – had insisted that a programme to refinance the group's debts of up to £1.4bn should be in place by February.

According to Lord Kindersley, who was appointed non-executive chairman on Friday, the banks now accept that this deadline will not be met, partially because a detailed report on Brent Walker's finances is taking longer to complete than had originally been anticipated. The report is being prepared by Touche Ross on behalf of creditors.

Lord Kindersley said that he envisaged an agreement would be in place by "late March or early April".

Lord Kindersley, who is also a director of the insurance company, Sun Alliance, was one of a number of new board appointments announced on January 11. Mr John Leach, who was managing director of the LEP Group until late last year, is to become finance director, replacing Mr Wilfred Aquilina, who resigned in December. Mr John Brown, managing director of William Hill, and Ms Jean Walker, managing director of Brent Walker Hotels, were both appointed to the main board.

Sir Philip Beck, chairman of John Mowlem, and Mr Alan Clements are to join the board as non-executive directors. In addition to an executive committee, two other board committees have been formed – a finance committee whose initial task will be to organise the refinancing of the group, and an audit committee consisting of non-executive directors.

Welcoming the appointments on behalf of Brent Walkers' creditors, Mr David Brougham of Standard Chartered said that the "experience and reputation of the appointees augurs well for the future success of the company."

Markheath expands by 52% midway to £6.6m

By Jane Fuller

MARKHEATH Securities, the property company which acquired an industrial wing when it took over Camford engineering last May, increased pre-tax profit by 52 per cent to £6.6m in the six months to September 30.

Markheath is 49.9 per cent owned by the Adelaide Steamship Company headed by Mr John Spalvins, who is chairman of the UK concern.

As the Australian group is planning to reduce its A$ 7.2bn (£3.76bn) debt partly through asset sales, there is some uncertainty over the future of its stake in Markheath.

At Friday's closing price of 30p, Markheath is valued at £36.6m, little more than half the £64m paid for Camford.

Mr Paul Bobroff, Markheath's managing director, stressed that there were no loans between the two concerns.

He said Markheath was run by its UK management: "Mr Spalvins is only here for a few days a year."

Markheath's profit increase from £4.3m to £6.6m came on turnover of £74.5m (£14.1m). The figures included £52m sales from Camford Engineering, which principally makes axles and suspension components for Rover, Ford and General Motors.

After net interest payments of about £5.5m, more than for the whole of 1989-90, the profit made from Camford and property development was £4.1m (£2.5m).

Dividends received also accounted for £1.2m (£1.1m).

Earnings per share, affected by a one-for-one rights issue a year ago, fell to 3.59p (4.56p).

The interim dividend is held at 2p.

Administrators of PPI face court block

By John Murray Brown in Ankara

Polly Peck International administrators face a further court injunction preventing them from gaining access to the accounts of the group's Cypriot subsidiaries. A vital part of the 1989 group profits of £107m came from its near east operations.

The injunction was passed by a Famagusta court last week on behalf of Unipac and Sunzest Trading, the packaging and citrus subsidiaries, against Mr Michael Jordan, Mr Richard Stone and Mr Christopher Morris, the three court administrators appointed in October to the UK-based fruit and electronics group.

The injunction was won by Mr Fahri Tunalier a director of both subsidiaries, and Mr Mentes Aziz, the lawyer of Mr Asil Nadir, the PPI chairman.

Seeking a suitor for the sleepy princess of Mayfair

John Thornhill looks at Thomas Goode and its desire to be taken over

THOMAS GOODE, purveyor of fine china to the royal family for generations, is staging a spectacular January sale: it is selling itself.

The Mayfair shop's 60 family shareholders decided that the business, which has been financially weakened in recent years by failed diversifications and the tough retailing market, could best be taken forward as part of a larger organisation.

They also wanted to realise some of the capital tied up in the business, which they hope will fetch about £10m.

Hambros Bank, which has been asked to look for suitable buyers, has already received several preliminary offers from potential purchasers in the UK as well as from North America, Japan and continental Europe.

The business started in 1827 when Thomas Goode opened a china store in Hanover Square. The shop moved in 1845 to its present site in South Audley Street and consists of an enticing maze of small showrooms displaying ornate glassware, porcelain and fine china.

Mrs Helen Robinson, Thomas Goode's lively managing director, bubbles with excitement as she talks about its potential.

"There is just so much here waiting to be capitalised on. It is like a sleeping princess waiting for the prince to come along to give her a big kiss," she says.

Mrs Robinson, a former executive editor of Vogue magazine who also worked as a main board director at Debenhams, says the business has been gradually transformed after outside professional managers were appointed in 1988.

They modernised the shop, speeded up service, introduced computer technology, achieved faster stock turnround and improved the availability of goods. They also introduced a range of branded goods, ranging from pottery to playing cards, and are looking at further licensing and franchising opportunities.

Mrs Robinson claims the shop was previously a forbidding place and deterred many customers. "It was regarded as a showroom rather than a shop," she says.

But Thomas Goode now tries to entice younger customers into the store by offering lower-priced goods and wedding lists.

The shop also owns a wide range of old patterns and designs, some of them produced for illustrious former customers such as the Russian royal family. Queen Mary used to buy her soap from the shop.

Thomas Goode has retained three royal warrants, which are proudly on display near the entrance. Other precious objects are also on show and two 7ft Minton china elephants stand guard in the window.

Geared up for a January sale – Thomas Goode's store in London's Mayfair

However, the shop has now reached an impasse and is finding it hard to expand without further injections of cash. The company was hit badly by the collapse of a pottery manufacturer it ran in Stoke-on-Trent and an unfortunate – and expensive – attempt to stage an exhibition in the US on the day the Wall Street market crashed in October 1987.

Like many other UK retailers, Thomas Goode has been suffering from the current harsh trading climate and was further hampered last year when some large orders from Kuwait and Iraq were cancelled.

Sales in the 12 months to January 31 are projected to rise from £3.4m to £3.6m although the company still expects to make a small loss at the pre-tax level.

Most of the interest expressed in the company has stemmed from private retail organisations, which are not under the same compulsion as public companies to achieve immediate earnings growth. It is possible that the retail operation may be sold separately from some of its related property assets.

But the price offered for Thomas Goode may be difficult to determine. "You are buying a name and a collection of royal warrants just as much as an income stream," says the Hambros director responsible for the sale.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
General Mediterranean Holding (Luxembourg)	Ertoil (Spain)	Petrochemicals	£252m	Sale by Kuwait Investment Off.
Sanofi (France)/ Sterling Drug (US)	Sanofi Winthrop	Pharmaceuticals	N/a	Innovative global jv
Ciba-Geigy (Switz)/ Olin Corp (US)	OCG Microelectronic Materials (jv)	Electronic materials	£74m	50-50 ownership
Dresdner Bank (Germany)	Corporacion Banesto (Spain)	Industrial holding co.	£64m	Banesto places 5% stake
Lazard Brothers (UK)	Les Fils Dreyfus (Switzerland)	Banking	£40m est	Substantial minority stake
FLS Industries (Denmark)	Dan-Air Engineering (UK)	Aircraft maintenance	£27.5m	First step in recovery plan
Ault Foods (Canada)	Unit of Canada Packers	Dairy products	£23m	Another sale by UK's Hillsdown
Japan Airlines (Japan)	Lockheed Commercial Aircraft Centre (US)	Aircraft maintenance	N/a	JAL takes 14% stake
County NatWest Ventures (UK)/Vecteur Finance (France)	Joint venture	Venture capital	£14m	"Important step" for County
Hafnia Holding (Denmark)	Cambio & Valoren Bank (Switzerland)	Portfolio management	N/a	Hafnia ups stake to 72.1%

Source: FT Mergers & Acquisitions International

Strategy, survival and the Single Market lay behind last week's major cross-border deals, writes Brian Bollen.

Swedish paper company Stora confirmed its recent expansion in continental Europe with its purchase of the 42.9 per cent stake in Portuguese pulp mill Soporcel owned by Wiggins Teape Appleton.

This purchase by Europe's biggest pulp and paper concern confirms Stora's status as one of the leaders of Sweden's advance into EC countries in preparation for 1992 and the Single Market, and reinforces the radical change in the appearance of WTA since it was undbundled from BAT last year.

Sanofi Winthrop, the innovative pharmaceuticals global joint venture formed by Sanofi of France and Sterling Drug of the US, continues two recent trends: moves by French companies into the US and the restructuring of a once stable industry.

The principal reasons behind mergers in pharmaceuticals have been the rising costs of research and development, the pressure to lower prices in the face of competition and the problems of patent expiry. Most have involved companies in the US, where the reshaping of the industry has seen a reduction in the number of independent manufacturers and the growth of foreign ownership.

Unilever's purchase of 49.9 per cent of Jalostaja contributes the continuing upheaval in Finland's food industry as it faces up to external competition. The acquisition, which doubles Unilever's food interests in Finland, was described as a rapid way to internationalise its food operations by parent company Huhtamaki.

NEWS DIGEST

Losses at RMT rise to £1.35m

PRE-TAX losses at RMT Group, the USM-quoted distributor of computer consumables, increased sharply from £42,000 to £1.35m in the year to June 30.

The underlying fall at the operating level – from profits of £426,000 to losses of £466,000 – was exacerbated by a higher exceptional loss of £444,000 (£163,000) and a rise in net interest payable and similar charges of £435,000 (£305,000).

Mr Ken Vere Nicoll, chairman of the group since March, said that the year had been one of significant change with restructuring of its operating businesses, strengthening of the board and senior management, the purchase of an advanced computer system and a name change from Spectrum Group.

Turnover rose to £11.85m (£10.86m) and losses per share were 7.04p (0.4p).

Dewhurst

The second half at Dewhurst was held back by exchange rates, the recession and an "unprecedented" level of new product development.

Pre-tax profits for the year to September 30 rose from £969,054 to £1.02m on sales of £7.85m (£7.01m).

Tax took £374,158 (£344,126) and earnings were 5.99p (5.79p). A final dividend of 1.1p makes a 1.7p (1.47p adjusted) total.

Fleming High

Fleming High Income Investment Trust, set up last year by Robert Fleming, the financial services group, has purchased a £4.26m portfolio of short-term gilts from Bolton, a privately-owned shipping and insurance group.

Fleming said the acquisition would increase its net asset value per share by 2.7 per cent.

مكتبة الأهل

COMPANIES AND FINANCE

Predators gather to pick meat from Fairfax bones

Kevin Brown looks at efforts by the receiver to restore stability to the Australian media group

MR DES NICHOLL, receiver of the embattled John Fairfax media group, has spent much of the past four weeks fending off predators trying to pick plums out of the Fairfax basket.

Chief executives of several media companies have received polite letters from Mr Nicholl, a partner in Deloitte Ross Tohmatsu, thanking them for their interest but stating firmly that only bids for the whole company will be considered.

His attempt to avoid a break-up of the Fairfax titles has restored an element of stability to a group which for years has been long on excitement and short on strategy.

However it leaves open the form which any reconstruction might take, and indicates that it is likely to be several months before concrete proposals for a refloation or takeover emerge.

Mr Nicholl moved into Fairfax in early December after a banking syndicate led by ANZ and Citibank decided the group had no hope of servicing debts of A$1.1bn (US$851m).

The bank loans, together with an overdraft facility of A$100m and US junk bond commitments of US$450m, were the residue of A$2.1bn raised in 1987 by Mr Warwick Fairfax to finance a takeover of the group.

Mr Fairfax, then 26, was concerned that other family members were mismanaging the group, which he feared would fall into the hands of Mr Rupert Murdoch, Mr Kerry Packer or the late Mr Robert Holmes à Court.

Mr Fairfax acquired 100 per cent of the group when he succeeded in buying out other family members and private shareholders, but lost everything when the banks lost patience.

Ironically, it was Mr Mark Burrows, senior partner in the merchant bank Baring Brothers Burrows, who advised the banks to call in their loans; three years earlier, Mr Burrows had unsuccessfully warned Mr Fairfax not to risk his fortune by going ahead with the takeover.

The receiver's strategy is to try to maximise the value of the three main titles – the Sydney Morning Herald, The (Melbourne) Age and the Australian Financial Review – by selling the group as a going concern.

Mr Nicholl says Fairfax is trading profitably at the operating level, in spite of the recession which has gripped Australia. The underlying profitability of the group is high because of the dominant position held by the three main titles in the Sydney, Melbourne and business advertising markets.

Initial expressions of interest have been received from several groups, including Pearson, the UK group headed by Lord Blakenham and which owns the Financial Times; Hellman and Friedman, the US investment house; Dr Tony O'Reilly, the Irish chairman of Heinz, whose family owns a chain of Australian provincial newspapers; Heytesbury Holdings, the family company formerly run by Mr Holmes à Court, now run by his widow Janet; Rural Press, a provincial newspaper group run by Mr John B. Fairfax; Jamison Equity, a venture capital vehicle run by Mr Chris Corrigan; and Mr Robert Maxwell, the UK newspaper proprietor.

However, most are interested in only one of the assets – Pearson, for example, would like all or part of the Financial Review, while Mr Maxwell is interested only in The Age.

Rural Press would like to buy smaller assets such as the Newcastle Herald.

Mr Murdoch, chief executive of News Corporation, is unable to acquire Fairfax assets because he already controls nearly 70 per cent of daily newspaper circulation, while Mr Packer cannot bid because he owns a television network.

Mr Nicholl hopes to persuade some of the interested parties to join a consortium or subscribe for shares to take over the whole company. He says he hopes to produce an "action plan" for the reconstruction within four or five weeks.

Meanwhile, three Sydney stockbrokers are working on separate proposals for an injection of institutional and private equity into Fairfax, followed by a flotation. Investor interest is said to be high, and the AMP Society, the country's biggest institutional investor, is thought to be ready to invest.

The reconstruction will be complex and will take several months to complete. The most likely outcome, based on merchant bank valuations of Fairfax at A$1.1bn, is an injection of between A$500m and A$600m, combined with a restructured loan from the banks for a similar amount.

The injection could be by way of a consortium or through a partial flotation, or both.

Alternatively, some brokers say the assets are good enough for the whole company to be floated in the second half of the year if the economy recovers as forecast.

The reconstruction remains fraught with problems:

● The timing of a flotation to avoid the impending privatisation of Australian Airlines and the part-privatisation of Qantas and Commonwealth Bank.

● A legal dispute between the receiver and Bank Brussels Lambert over two of the seven presses used by The Age, over which the bank claims rights.

● The junk bond holders are thought to be considering legal action against the banks, although they are unlikely to precipitate the liquidation of Fairfax since the proceeds would flow to the banks as senior lenders.

● The attitude of the federal government to foreign investment remains unclear. Mr Paul Keating, the treasurer (finance minister), has indicated that a 20 per cent ceiling on foreign ownership of media assets might be allowed, but his office continues to stress the 15 per cent limit set by the Foreign Investment Review legislation.

Some of the brokers drawing up reconstruction plans say they are working on the assumption that Australian ownership of the Fairfax assets is a national "sacred cow," while others say an exception to the rule could be made for a "respectable" foreign media group.

Among those who have expressed an interest in Fairfax are Janet Holmes à Court (left), of Heytesbury Holdings, Tony O'Reilly of Heinz, and Pearson's Lord Blakenham (right)

US busy in French M&A market

By William Dawkins in Paris

US COMMERCIAL bank advisers held the second five of the top 10 places in the French mergers and acquisitions market last year, but will find it hard to hold their position in 1991, according to a survey released yesterday.

Their arrival in such force comes as a result of the recent ambitious takeover spree by French companies in the US, although French groups are expected to seek fewer really big acquisitions in the year to come, says the study by the magazine Fusions & Acquisitions*.

Instead, it expects France's top companies to focus on their core businesses this year and dispose of smaller activities.

Goldman Sachs and J. P. Morgan were the top US commercial banks to advise French bidders last year, with the first acting for 11 deals worth FFr28.6bn ($5.5bn) involving French clients, followed by J. P. Morgan acting for 12 acquisitions with FFr25.7bn. They held fifth and sixth positions in the overall league table of Parisian bank advisers, followed by Credit Suisse First Boston, Salomon Brothers and Lehman Brothers.

Despite the US banks' sudden importance, French banks continued to dominate. Lazard Frères held on to its traditional position as the top adviser by a long way, where it was adviser in 38 deals worth FFr120.7bn, more than twice the value of its nearest rival. That is also slightly more than the FFr119bn worth of deals advised by all the five US banks put together.

After Lazard Frères comes Banexi, a unit of Banque Nationale de Paris, the largest French nationalised bank, which moves up from ninth position in the 1989 league, with 83 deals worth FFr49.6bn. Crédit Lyonnais, also state-owned, comes third with FFr33.2bn of deals, while Paribas drops from second to fourth with FFr33.2bn worth of acquisitions.

**Fusions & Acquisitions, 68 Boulevard Sénard, 92210 Saint-Cloud, France.*

Hungary names advisers for privatisations

By Stephen Fidler, Euromarkets Correspondent

THE Hungarian government has named the financial advisers on the 20 privatisations which will constitute the first phase of the country's sweeping sales programme.

British companies are heavily represented on the list, advising jointly with others on the sale of seven of the 20 companies. Nomura, the Japanese securities firm which has established a subsidiary in Hungary, is the only firm to be advising on two privatisations. Hungarian firms will take part in all but five of the sales.

The successful candidates were chosen by the State Property Agency from 274 applications. They will recommend what they see as a desirable ownership structure and on the best privatisation technique. The timetable for privatisations will then be decided on by the SPA.

While previous "spontaneous" privatisations have taken place, the 20 companies are the first of the government's "controlled" privatisations. These, it is hoped, will privatise 5 to 8 per cent of the public sector every year.

Maximum foreign ownership of the companies is set at 49 per cent. The government has said it wants a broad spread of Hungarian shareholders, but is less specific about the foreign ownership.

Cariplo may acquire full control of Banca Jover

By Haig Simonian in Milan

CARIPLO, Italy's biggest savings bank, has confirmed that it is considering an offer to buy full control of Banca Jover, the Spanish bank owned by Banco de Santander.

The move follows last year's surprise rupture in the links between Cariplo and Banco de Santander, which in 1988 agreed to swap 30 per cent stakes in their Istituto Bancario Italiano (IBI) and Banca Jover subsidiaries respectively.

The much-contested deal, which also involved the purchase by Cariplo of a 1.2 per cent stake in Banco de Santander, finally unravelled for undisclosed reasons but apparently at the Spanish bank's behest.

Banco de Santander announced its intention of pulling out of IBI, and last December paid Cariplo L90bn to buy back its direct share stake. The bank has now offered to sell Cariplo the remaining 70 per cent of Banca Jover for an undisclosed sum.

Although the proposal may be attractive to Cariplo as a way of boosting expansion, the high prices being rumoured may be a disincentive.

Saison chief set to delegate authority

By Stefan Wagstyl in Tokyo

MR SEIJI TSUTSUMI, the owner of Saison Group, one of Japan's largest conglomerates, has announced plans to delegate some of his authority to his senior executives.

But Mr Tsutsumi, 63, denied reports that he intended to retire. He told a press conference on Saturday: "I have a lot of work to do and I want to see our group grow further. The reorganised group will continue to survive and expand after my death."

Saison Group's flagship company is Seibu Department Stores, an up-market retailer. It also owns a range of leisure interests, among them a stake in Inter-Continental Hotels.

Other businesses include real estate, finance, helicopters and fast food. The combined turnover of the group's 100 companies will reach around Y4,400bn ($32.8bn) in the current financial year.

As part of the plans to devolve power, Mr Tsutsumi is dividing the group into six operating divisions from March 1 – retail, distribution, real estate, finance, fast food and hotels. Mr Tsutsumi said he would soon name three or four executives to replace him, but he would still help co-ordinate the group's activities.

Mr Tsutsumi is giving up the title of group "representative" and other posts, including the presidency of Saison Corporation, the holding company.

Mr Tsutsumi's half-brother, Mr Yoshiaki Tsutsumi, head of a railways and leisure empire, regularly tops lists of the world's richest men. The two men, portrayed in the Japanese press as bitter rivals, inherited their fortunes from their father, a prominent businessman and politician.

IBM close to finalising unit sale to management

By Martin Dickson in New York

IBM expects to complete the sale of its typewriters business to a management buy-out led by investment company Clayton & Dubilier by the end of March.

The deal, first announced last summer, also includes IBM's personal printer and keyboard operations. The businesses, based in Lexington, Kentucky, have annual revenues of about $2bn. The units were originally expected to fetch some $2.3bn, but the final sale price is expected to be less than $2bn.

With a credit crunch in the US banking industry, and leveraged buy-outs unfashionable on Wall Street, there had been some concern about whether financing could be arranged for the deal.

But IBM confirmed that senior debt financing had been committed to the deal, although the banks had yet to perform their investigations of the units involved.

IBM will retain a 10 per cent stake in the business, which will be called Lexmark International.

Progress on First Executive debt

FIRST Executive, the troubled US west coast insurance company which had a particularly heavy exposure to the junk bond market, has said that it is progressing with its debt restructuring plan, writes Nikki Tait in New York.

It said that it had entered an agreement with "a representative of certain of the company's noteholders and of its banks" relating to a restructuring of its senior debt. It added that it had filed preliminary proxy materials with the Securities and Exchange Commission over a possible restructuring of its existing preferred stock. It noted that there was no assurance that either deal would be completed.

First Executive, a major customer of Drexel Burnham Lambert, the now-defunct investment bank, is reckoned to have had over 45 per cent of its investment portfolio in junk at one stage. In the wake of the collapse of the junk bond market, the insurer was badly hit by policy surrenders, putting further pressure on the investment portfolio.

BASE LENDING RATES

	%		%		%
ABN Bank	14	Co-operative Bank	14	Nat Bk. of Kuwait	15
Adam & Company	14	Coutts & Co	14	NatWestminster	14
Allied Trust Bank	14	Cyprus Popular Bk	14	Northern Bank Ltd	14
AIB Bank	14	Dunbar Bank PLC	14	Nykredit Mortage Bank	14½
● Henry Ansbacher	14	Duncan Lawrie	14	Provincial Bank PLC	15
Associates Cap Corp	15½	Equatorial Bank plc	14	Roxburghe Bank Ltd	14½
● B & C Merchant Bank	14	Exeter Bank Limited	14½	Royal Bk of Scotland	14
Bank of Baroda	14	Financial & Gen. Bank	14	Royal Trust Bank	14
Banco Bilbao Vizcaya	14	First National Bank Plc.	16	● Smith & Williamson Secs.	14
Bank Credit & Comm	14	● Robert Fleming & Co.	14	Standard Chartered	14
Bank of Cyprus	14	Robert Fraser & Ptnrs.	14½	TSB	14
Bank of Ireland	14	Girobank	14	Unibank plc	14
Bank of India	14	● Guinness Mahon	14	● United Bk of Kuwait	14
Bank of Scotland	14	● Hambros Bank	14	United Mizrahi Bank	14
Banque Belge Ltd	14	Hampshire Trust Plc	14½	Unity Trust Bank Plc	14
Barclays Bank	14	Heritable & Gen Inv Bnk.	14	Western Trust	14
Benchmark Bank	14	● Hill Samuel	14	Westpac Bank Corp.	14
Brit Bk of Mid East	14	C. Hoare & Co.	14	Whiteaway Laidlaw	14
● Brown Shipley	14	Hongkong & Shangh	14	Yorkshire Bank	14
CL Bank Nederland	14	● Leopold Joseph & Sons	14		
● Charterhouse Bank	14	Lloyds Bank	14		
Citibank NA	14	Meghraj Bank Ltd	14		
City Merchants Bank	14	McDonnell Douglas Bnk	14		
Clydesdale Bank	14	Midland Bank	14		
Comm.Bk.of London Plc	14	Mount Banking	14		

● Members of British Merchant Banking & Securities Houses Association.

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INTERNATIONAL LENDING

Launches delayed as banks wait and see

THE INTERNATIONAL loans market slowed almost to a halt last week as banks delayed the launch of new deals ahead of the potential outbreak of war in the Gulf this week.

"We have several mandates, but the pricings we have agreed will be subject to review," one banker said. Nevertheless, a few deals trickled out.

Istituto Italiano di Credito Fondiario, an Italian bank specialising in mortgage loans, launched an Ecu100m 10-year loan to fund its mortgage-lending activities. The loan carries an option for the borrower to draw funds in either lire or D-Marks. These currency options reflect the growing demand in Italy for mortgages denominated in various currencies.

The syndicated loan will have an average life of around six years, because it is repaid in 20 unequal semi-annual instalments. The loan pays interest at 32.5 basis points above the London Interbank Offered Rate, and is arranged by Banca Commerciale Italiana, with Bayerische Vereinsbank and Banque Internationale à Luxembourg as joint underwriters.

Outokumpu, the Finnish industrial group, is raising a $150m loan via joint arrangers Barclays Bank, KOP, Manufacturers Hanover and Postipankki. The four-year deal for Outokumpu Finance pays interest at 35 basis points over Libor for the first two years, then at 37½ basis points above Libor.

The deal illustrates the rise in funding costs for corporate borrowers, even those with *majority state ownership*: when Outokumpu came to the market in summer, the margin for a seven-year deal was only 25 basis points over Libor.

Eurovias, the Spanish highways concern, launched a Y6.3bn five-year deal, arranged by Bank of Tokyo International. The loan, to refinance outstanding debt, pays interest at 32½ basis points above Libor.

Tracy Corrigan

INTERNATIONAL BONDS

Past conflicts give few clues on likely reaction to war in Gulf

FOR THE first time in the memory of many participants, the world's bond markets are confronted with the serious *possibility of war. In the* circumstances, speculation about the market consequences of armed conflict may seem trivial. However, *the Gulf crisis* has put livelihoods, as well as lives, at risk.

Past conflicts give few clues about how the markets might *perform in the* event of war. The structure of global bond markets has changed significantly since the wars in Korea or Vietnam, or the near-conflict in Cuba.

Bond markets are now underpinned by sophisticated information technology. This has increased the amount of information available to investors and has increased the quality of markets. However, it has arguably increased the *chances of volatility* being transmitted between markets.

Investors also have at their disposal a whole armoury of derivative financial products with which they can control exposure to the markets with only a *small capital outlay*. Derivative instruments should, in theory, even out volatile price movements in underlying *cash bond markets*, although debate still rages about the role of futures and options in the 1987 equity market crash.

At the end of last week, Swedish Export Credit brought two issues of oil-linked medium-term notes in the *US market*, which offered investors a hedge against rising oil prices. Goldman Sachs, which arranged the issues, *is working* on similar oil-linked transactions for the Eurobond market, possibly for banks.

Analysts note that the volume of cash bond market trading has remained subdued as the Gulf crisis has escalated. This suggests that investors *are hedging bond holdings* with such instruments, rather than liquidating massive amounts of underlying stock.

One favoured investment strategy has been to buy call options on the oil price and call options on the Nikkei stock market index; the rationale being that one or the other will rise over the next month.

Finally, the sheer volume of international trade in bond markets has increased the potential for massive reversals *in the international flow of* capital.

There were signs for most of last year, for example, that Japanese capital was being repatriated into domestic securities. War in the Gulf could reverse this trend to the benefit of "safe-haven" dollar and Swiss franc assets; or accelerate it as Japanese investors look to minimise currency risk at a time of uncertainty.

"There has been a suspension of traditional relative values between bond markets in recent months as established international flows have been disrupted," said Mr George Magnus, chief international economist at Warburg Securities. "The markets that may *do* best in a war situation are those that can rely most on domestic funds and funds switching out of equities."

There are few clues to be drawn from *the performance of bond markets* during earlier international conflicts.

"This is the first time that *the US has been on the brink* of war while its domestic economy is on the brink of a major recession," said *Mr Robin Marshall*, Chief Economist at Chase Investment Bank in London.

The *duration and geographical* spread of a possible conflict are unknown. These variables will dictate the future price of *oil for this year.*

Most economists are predicting oil prices of between $45 and $50 per barrel *in the initial stages of any conflict*, but the longer-term direction of prices *is open to question.*

Oil prices of $50 per barrel for any length of time could push the US and other economies into a fully-fledged recession. Some bond markets may have discounted a short, *limited and successful armed* conflict with Iraq, but a longer engagement would bring unforeseen pressures.

"*Nobody is discounting* Armageddon," said one economist. Anything other than a very short war in the Gulf will put upward pressure on US interest rates, while the recent trend has been an easing of US monetary policy.

As the mainstay of the military alliance in the Gulf, the US economy will be most effected by a protracted conflict. If the US economy moves towards a "*war footing*" *inflationary* pressures could re-emerge, forcing current interest rate trends into reverse. *This would lead to the renewal* of "bear market" trends in the US bond markets.

Equally, some economists predict that war would lead to a further tightening of both German and Japanese monetary policies as inflationary pressures increased.

Since the Bundesbank is already seen as committed to a further tightening by many parties, the Gulf crisis could be a handy pretext to head-off *inflationary* pressures at home without provoking the ire of Germany's European Monetary System partners.

However, higher *German interest rates* would be wholly unwelcome in the UK and French bond markets. Domestic economies are slowing and the markets are *currently* trading on the assumption of lower interest rates.

The French market may have furthest *to fall of all* European markets, given the economy's perceived dependence on oil imports. Analysts predict that *10*-year French *government* bond yields will rise from 10 per cent to 11 per cent in the event of even a short conflict.

The Japanese economy is almost wholly dependent on oil imports and will face strong *inflationary pressures* if oil prices are pushed to new heights by a lengthy conflict, yet Japanese government *bonds have performed* well since the crisis began.

"Looking at the relative performance of bond markets over the past five months, it is clear that the Japanese market has not fully discounted an armed conflict," *said Dr Gerard* Lyons, chief economist at DKB International. He predicts that the yield on the benchmark 10-*year Japanese government* bond could rise to 7.75 per cent, from 6.85 per cent last week, within a week of the first mili*tary engagement*.

However, Mr Magnus suggests that the Japanese bond market is underpinned b[...] switching out of equities a[...] into bonds. He points out th[...] the Japanese government bo[...] market actually rose when t[...] Geneva peace talks collaps[...] last week – an event whi[...] many view as a market "dr[...] run" *for the outbreak of war* [...] despite the yen's depreciatio[...]

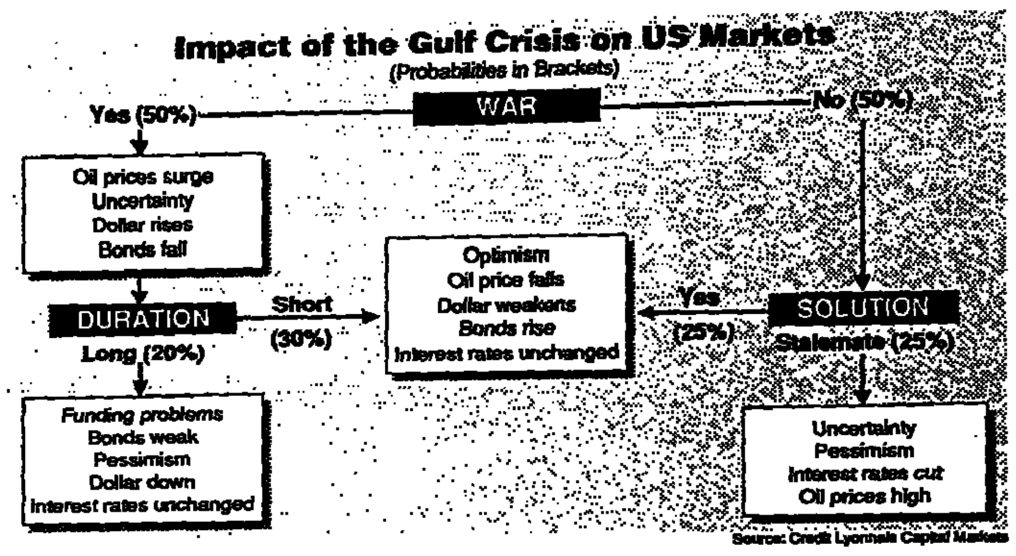
Indeed, one feature of t[...] crisis so far has been [...] "decoupling" of forei[...] *exchange markets from bo[...]* markets. Thus the US treasu[...] market has suffered wild flu[...] tuations over the past wee[...] while the dollar has risen.

Other than the tradition[...] "safe havens" of the dollar a[...] the Swiss franc, high-yield cu[...] rencies such as sterling a[...] the Canadian dollar have pe[...] formed well on the foreig[...] exchange markets as the cris[...] *has deepened.*

"Cash balances have bee[...] built up since the Gulf cris[...] began and institutions a[...] parking cash in safe-haven a[...] high-yield currencies," said M[...] Marshall.

Most analysts agree that th[...] longer maturity securities ha[...] most to lose from a war in th[...] Gulf – and most to gain fro[...] peace. This pattern wa[...] already in evidence last wee[...] with the US yield curve stee[...] ening – and the inverted U[...] yield curve flattening – a[...] shorter maturity bonds ou[...] performed long bonds as th[...] crisis seemed to slide inexor[...] *bly towards war.*

Simon Londo[...]



Source: Credit Lyonnais Capital Markets

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,000.0	0.0	0.0	14,818.3
Prev	0.0	0.0	566.5	4,547.6
Other	2,373.6	0.8	249.8	10,867.2
Prev	788.0	0.0	0.0	4,052.0
Secondary Market				
US$	12,830.7	407.8	3,493.7	7,319.4
Prev	14,527.3	429.5	6,260.2	4,874.3
Other	16,210.1	613.2	3,613.3	34,594.3
Prev	14,893.7	519.9	2,314.4	23,943.7

	Cedel	Euroclear	Total
US$	15,905.3	23,964.6	39,869.9
Prev	14,862.9	16,342.5	31,205.4
Other	25,683.6	42,838.7	68,522.3
Prev	22,225.1	24,286.6	46,511.7

Week to January 10, 1991

Source: AIBD

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Omron Corp(h)‡◆	370	1995	4	4½	100	Nomura Int.	4.500
Republic of Finland(b)◆	300	1996	5⅓	9	102.10	Morgan Stanley Int.	8.475
Finnish Export Credit◆	150	1993	2	7⅝	100.72	Merrill Lynch Int.	7.223
Tsumura & Co.‡	100	1995	4	(4⅞)	100	Nikko Secs.	-
ECUs							
EIB(a)◆	500	2001	10	10	98.82	Paribas Capital Mkts.	10.194
STERLING							
EIB(f)◆	100	1999	8½	10½	95.40	Samuel Montagu	11.345
D-MARKS							
Lufthansa Int.Fin.(e)†◆	500	1998	8	(e)	100	Deutsche Bk	-
Lufthansa Int.Fin.(e)†◆	500	2001	10	(e)	100	Deutsche Bk	-
EIB(g)†◆	250	2001	10	(g)	100	Dresdner Bk	-
SWISS FRANCS							
Tokyo Tatemono Co.★★◆	50	1995	-	8¼	100	UBS	8.250
ENSHU Ltd★★◆	20	1996	-	8⅜	100	Fuji Bk (Schweiz) AG	8.375
Showa Leasing Co.★★◆	50	1996	-	8⅜	99¾	HandelsBank NatWest	8.438
Kaerntener Elek.★★◆	30	1996	-	7⅝	101½	Credit Suisse	7.257
PESETAS							
Republic of Austria◆	15bn	1997	6	13.55	101.80	Bco.Bilbao Vizcaya	13.0[...]
YEN							
Orix Corp◆	7bn	1995	4	8⅛	101.60	Daiwa Europe	7.6[...]
LUXEMBOURG FRANCS							
Credit Agricole★★◆	500	1994	3	10⅛	102	Cregem	9.3[...]
Compagnie Bancaire★★◆	400	1994	3.167	10⅛	102	Banque Paribas (Lux.)	9.3[...]
In'finance Cr.Nat.★★◆	500	1994	3	10⅛	102	BCEE	9.3[...]
Cr.Foncier de France★★◆	1bn	1996	5	10	102⅛	BGL	9.4[...]
Barco Finance BV★★◆	600	1996	5	10	102	BIL	9.4[...]
Delfined BV(c)★★◆	900	1996	5	10	101⅝	BIL	9.5[...]
AGA AB(d)★★◆	600	1996	5.167	10⅛	101¾	Credit Europeen	9.6[...]
Okobank◆	800	1996	5	10	101.95	KBL	9.4[...]
Lease Plan Holding NV★★◆	300	1994	3.167	10⅛	101.85	Banque UCL	9.3[...]
Renault Acceptance BV★★◆	400	1994	3	10⅛	101.95	Banque Paribas (Lux.)	9.3[...]

★★Private placement. §Convertible. ‡With equity warrants. †Floating rate note. ◈Variable rate notes. ◆Final terms. a) Purchase fund during fi[...] 3 years. Non-callable. b) Fungible with existing deal launched 1989. Non-callable. c) Amount increased from LFr600mn. Non-callable. d) Amou[...] increased from LFr300mn. Non-callable. e) Coupon pays ⅛% over 6-month Libor. Non-callable. f) Fungible with existing £300mn de[...] Non-callable. g) Amount increased from DM200mn. Coupon pays 3-month Libor minus 15bp. Callable after 2 years at par, then on each coupo[...] date, thereafter. h) Coupon was indicated at 4⅞%. Exercise premium fixed at 2.5%. Non-callable. Note: Yields calculated on AIBD basis.

هكزامن الأصل

UK GILTS

Prices reflect Gulf crisis see-saw

TRADING in gilt-edged securities swung in see-saw fashion last week in the light of efforts to assess the likely outcome of the Gulf crisis.

But a lack of consensus on whether a war in the Middle East could be avoided, and absence of new information about the depth of the UK recession, gave the market a directionless look for the week.

Gilt prices rose early when it appeared that diplomatic efforts to avert a crisis might succeed. Later they swung back, as despondency settled in on the chances of Iraq agreeing to a peaceful solution.

New statistics detailing the extent of the UK economic decline were thin on the ground last week. As a result, gilt analysts were unable to make much headway in honing their predictions of the likely pattern for inflation in 1991.

Many participants in the market, however, expect the annual rate of retail price increases to decline significantly over the next few months, from the level of 9.7 per cent reported for November. The figure for December, due out on Friday, is expected to be about 9.4 per cent.

For the week as a whole, gilts were little changed. The benchmark Treasury 9 per cent security maturing in 2008 was quoted on Friday night at 90%, compared with 90½ the week before. The yield went down slightly, ending the week on 10.15 per cent.

On Friday, the market was sluggish, in the light of cautiousness over whether a conflict could be avoided ahead of the United Nations deadline for Iraqi quiting Kuwait.

The market torpor at the end of the week rammed home the degree to which trading conditions for gilts have deteriorated in the past two years, partly as a result of the lack of new gilt issues over this period by the UK government.

According to International Stock Exchange figures, customer turnover in gilts generated by market makers in these securities declined last year by 15 per cent compared with 1989. Turnover was little changed between 1988 and 1989.

The lack of customers has dented profitability among many gilt traders. However, it appears that the market will be buoyed by more than £10bn worth of new gilt issues that are expected during 1991-92, as the government swings from surplus into deficit.

Mr Michael Saunders, of Salomon Brothers, believes the government will run a deficit of £5bn in 1991-92, compared with what many analysts forecast will be a debt repayment of between £1bn and £2bn this financial year.

With gilt redemptions next year of about £6bn, that makes a requirement for gilts funding in 1991-92 of roughly £11bn.

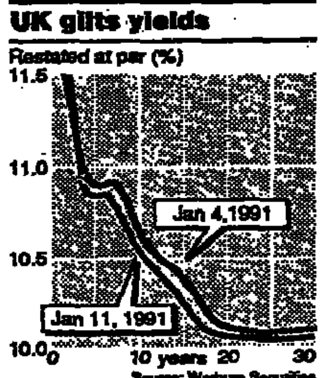
This assumes that added sources of revenue for the government, such as through increased National Savings deposits, are relatively small.

The large volume of gilt issues in 1991-22 will probably keep yields relatively high, especially for long-duration gilts, making the bonds especially attractive for overseas investors.

Peter Marsh

UK gilts yields

Restated at par (%)



Source: Warburg Securities

ITALIAN BONDS

Sentiment stays bullish for the longer term

OVERSHADOWED by the Gulf crisis in the short run, sentiment in the Italian bond market is still showing the bullish longer-term undertone seen during much of 1990, when volumes surged on the back of rising foreign demand.

Not surprisingly, end-investors have been conspicuous by their absence in recent weeks as the market has been dominated by speculative and inter-professional activity. Trading ranges were very tight and many speculators only dipped into the market and closed their books by lunch-time.

That has driven daily turnover on the market down to about L1,000bn to L1,500bn a day – a range that would have seemed impressive this time last year, but which lags well behind the L2,500bn to L3,000bn peaks reached later as international investors developed a taste for Italian paper.

Many of the fundamentals behind that boom remain in place, if somewhat weaker now. Interest rates are still relatively high; inflation, though outside the government's original 5 per cent target, closed the year at just over 6 per cent; and the stronger dollar of recent weeks has taken the heat off the lira, which experienced some jitters as a result of the D-Mark's strength at the end of 1990.

Once the Gulf shadow clears, attention should focus again on these fundamentals and the more positive prospects for Italian bonds because the Treasury's "wish list" of developments should also strike a chord with investors.

Continuing to extend the maturity of Italian debt features high on that list – this year's first auction already betrayed the tendency – with L2,500bn of 5-year fixed-rate Buoni del Tesoro Poliennali.

Though smallish as an issue, dealers expect the tap to be reopened later this year, and view the premium of 18 basis points against previous four-year BTPs as "reasonable".

Demand for the L2,000bn tranche of 7-year paper also went well in the circumstances, adding to the general belief that this year should see Italy's first 10-year fixed-rate bond after the successful introduction of 7-year paper in 1990.

Dealers are also cautiously optimistic that a breakthrough is likely on the vexed issue of withholding tax for eligible non-residents, a long-standing thorn in the flesh of the Italian market.

Though notionally entitled to repayment, foreign investors from countries having the appropriate double taxation agreements have not seen their withholding tax refunded, creating a disincentive for foreign purchases of Italian paper.

Now the signs are that the Treasury may be shifting its ground. Though total abolition of withholding tax for eligible non-residents appears out of the question, the chances of a commitment to repay those eligible have increased.

The scheme could involve repayments within a six-month period, or even the payment of coupons on a gross basis provided the relevant documentation is supplied to the custodian bank prior to the coupon date, according to one dealer.

If such a commitment is made and, more importantly, if the system is seen to work, it will provide a welcome fillip to the market.

"For those foreigners already buying Italian paper on a net basis, the prospect of a small pick-up is likely to mean that they will purchase even more," says one London-based trader.

Haig Simonian

NRI TOKYO BOND INDEX

December 1983 = 100	PERFORMANCE INDEX 10/1/91	Average yield† (%)	Last week	12 wks ago	26 wks ago
Overall	151.52	7.09	151.51	144.85	145.85
Government Bonds	149.48	6.92	149.72	141.68	143.49
Municipal Bonds	153.88	7.12	154.04	147.19	147.97
Govt.-guaranteed Bonds	156.20	7.22	156.13	149.59	150.39
Bank Debentures	148.60	7.12	148.28	143.56	143.00
Corporate Bonds	152.97	7.62	152.77	147.16	148.68
Yen-denom. Foreign Bonds	156.68	8.18	156.49	150.23	154.83
Government, 10-year†	6.53		6.64	7.31	6.78

† Estimated par yield

Source: Nomura Research Institute

US MONEY AND CREDIT

Markets braced for volatile spell

US CREDIT markets are bracing for a week of extraordinary volatility as the clock ticks towards the Tuesday deadline in the Gulf.

If fighting does break out, the oil price will rise sharply and the inflationary expectations that sets off are likely to mean a steep rise in long bond yields. However, at the very short end of the maturity spectrum yields may fall as investors rush for the safety of Treasury bills. This was the pattern last week as bond prices and the yield curve moved about wildly in response to the latest Middle East developments, and in particular to the fruitless US-Iraqi talks in Geneva.

By Wednesday the benchmark 30-year Treasury issue fell 3 points, although it then managed a slight recovery and ended the week down 1⅜ to yield 8.36, up from 8.20 a week before. However, the discount rate on 90-day Treasury bills dropped to 6.16, down 37 basis points, or to 6.32 on a bond equivalent basis.

A last minute negotiated peace would clearly reverse these movements. As for war, most Wall Street analysts are expecting it to be short, sharp and not significantly disruptive to oil supplies. That, too, would set off a strong bond market rally as crude prices dropped sharply, inflationary fears receded, and attention focused again on the weaknesses of the US economy.

These were graphically underlined last week by the Fed's decision to ease monetary policy for the fifth time in three months, pushing its target for the Federal Funds rate down from 7 per cent to 6¾.

The timing of the move surprised many market analysts, who had not expected it to be quite so aggressive in view of December employment figures which were slightly better than Wall Street forecasts.

One leak from the Fed suggested that it acted after seeing figures on sluggish money supply growth, and in particular M2, the broader monetary aggregate, which ended 1990 at 3.7 per cent, near the bottom of its target range.

However, the money supply figures of the past week have not been that dramatic. As Mr Robert Brusca, of Nikko Securities, points out, they are "not the kind of monetary data that stand a Fed chairman up and make him change his mind overnight". The more likely cause of the Fed's behaviour is concern over the health of the banking system – although to admit so would be to exacerbate the very problems it is trying to assuage. It seems no coincidence that the easing move came shortly after Bank of New England, one of the largest in the Boston area, was declared insolvent and seized by Federal regulators.

Indeed, sluggish growth in money supply is merely another way of looking at the strains in the banking system: credit is being restricted by banks struggling to improve ratios which have been shot to pieces by bad loan portfolios.

Fed concern over the banking system may also help explain the extraordinary volatility since the start of the year in the Fed funds rate, which has dipped as low as 0.5 per cent and as high as 20 per cent.

Fed funds is the rate charged by banks with excess reserves to other banks needing overnight loans to meet reserve requirements. As such, large swings in the rate are not unusual around the end of the year, or at the close of banks' two-week accounting periods, when they have to balance their accounts. But that does not explain all of this month's gyrations, which are due in part to the Fed injecting very large reserves into the system around the end of the year, and then being reluctant to drain them out again.

This looks like a deliberate attempt to ensure adequate liquidity in the banking system, although some analysts have a simpler explanation: no one is able to gauge banks' demands for excess reserves accurately.

The reasons, say these analysts, include the recent elimination of reserve requirements on banks' non-transaction deposits, and a reluctance by banks to be seen borrowing from the Fed's discount window lest this action brand them – quite wrongly – as potentially unsound.

There are suggestions that the Fed's concern over bank liquidity could prompt it to move back from its Fed funds targeting approach to the reserve targeting it employed a decade ago, and which produced large swings in the funds rate.

Whatever the central bank's precise intentions, the gathering US recession means the trend of interest rates is still strongly down, with Fed funds expected to drop to 6 per cent by mid-year and the long bond as low as 7¾. But all this is predicated on a quick end to the Gulf crisis, whether through peace or war, and that remains a terrifying wild card.

Martin Dickson

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed funds (lunch-time)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Three-month Treasury bills	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Six-month Treasury bills	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Three-month prime CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30-day Commercial Paper	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
90-day Commercial Paper	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wks ago
Seven-year Treasury	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
20-year Treasury	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30-year Treasury	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Money supply: In the week ended December 31 M1 rose by $4.1bn to $832.2bn.

FT/AIBD INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FLOATING RATE NOTES	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CONVERTIBLE BONDS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWISS FRANC STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OTHER STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GUILDER STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CANADIAN DOLLAR STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AUSTRALIAN DOLLAR STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
STERLING STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NEW ZEALAND DOLLAR STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FRENCH FRANC STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EQUITY WARRANTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn=current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.

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هكذا من الأفضل

UK COMPANY NEWS

Six Polly Peck resignations are confirmed

By Richard Waters

THE RESIGNATIONS were confirmed yesterday of six directors of Polly Peck International, the fresh fruit and electronics group, and it emerged that more boardroom departures could follow.

Those to leave are executive directors Mr Mark Ellis, Mr David Fawcus and Mr Radar Reshad, and non-executive directors Mr Ulf Siebel, Mr Neil Mills and Mr Dick Halpin.

Mr Richard Stone, one of three administrators appointed to the group last October, said: "The services of those directors are no longer required. We have effectively devolved operating control to operating directors of the group."

Mr Fawcus and Mr Ellis have formally resigned only within the last week, while the others resigned on January 18. This was because the two executives were still needed to assist the administrators until last week, Mr Stone said.

He added that there were likely to be further board changes after the administrators had developed their restructuring plan for the group, due by March 31.

"I think we have slimmed the board down to a sensible level. As we go forward with the restructuring plan, it may be that we will recruit more directors, and that some of those already there will feel they would rather pursue other interests," said Mr Stone.

Still on the board are Mr Asil Nadir, chairman and chief executive; Mr Reg Mogg, finance director; Mr John Clayton, company secretary; and non-executives Mr Larry Tindale and Mr Michael Sandberg.

Mr Stone added that progress had been made in recent weeks in tracing Polly Peck money that is said to have been invested in property developments in northern Cyprus. This amounts to more than £160m.

"We have more information – but not in the detail we need to verify what the position is to our satisfaction," he said. He refused to give further details, or to say whether the administrators had discovered cash deposits in northern Cyprus or elsewhere.

The administrators will have to decide within the coming weeks whether they have enough information about Polly Peck's northern Cypriot operations to include them in their restructuring plans, or whether they will have to be left to one side to be dealt with later.

Receiver called in at Gaynor

By Clay Harris

GAYNOR GROUP, the Manchester-based plastic packaging company, was placed in receivership yesterday, five days after its shares were suspended on the USM.

The receiver, Mr Grahame Watts of Touche Ross, said he had been appointed at the request of National Westminster, Gaynor's bankers. Mr Watts said he would try to keep the business intact for sale as a going concern.

Gaynor, which makes plastic carrier bags and polythene film, reported a pre-tax loss of £1.54m on turnover of £6.41m in the year to August 31. It suffered when customers switched to thin, high-density polythene carrier bags, which it was not equipped to make. It has continued to lose money in the current year.

Gaynor's 1989-90 accounts were qualified and drawn up on the basis that banking facilities would remain available. Current liabilities exceeded current assets by £982,000 on August 31.

The collapse puts at risk more than £1m invested or lent by the Scowcroft family, which owns 54 per cent.

The Scowcrofts, who also own the Swinton insurance group, paid £3.35m, or 120p per share, for their controlling stake in July 1988. By last Thursday, the shares had plunged to 7½p, to value Gaynor at £394,000. Last summer, the family made available another £750,000 in capital.

Shake-up at Dixons' offshoot

By Clare Pearson

DIXONS, the electrical retailer, yesterday announced new appointments at Silo, its North American subsidiary, which are intended to tighten management controls within the superstore group where trading has deteriorated in the context of the US recession.

The company said Mr Robert Sirkis, who joined Silo only last November as head of marketing, was to take over the main executive role at the company as executive vice president.

Mr Tony Dignum, Dixon's group finance director, is to combine that role with becoming Silo's president. The company said he expected to spend about three quarters of his time in the US.

He takes over from Mr Barry Feinberg, who had been president since before Dixons acquired Silo four years ago. But he is to remain as a non-executive director.

Prior to joining Silo, Mr Sirkis spent nine years in the US fast food business.

The hope is that the management shake-up will lead to improvements in cost reductions and margin improvements at Silo's 233 stores. In the six months to November 10, they made an operating loss of £2.3m on sales of £245.3m after charging £1.7m for costs of adding more outlets in Los Angeles.

Dixons said yesterday there had been no improvement in trading during the second half since the interim results announcement in January.

The recession has begun to shake the resilient image of the support service sector, writes David Owen

Chickens come home to roost as the good times end

THE NOTION that business support services are "recession resistant" became an article of faith during the 1980s boom.

Employees make as much mess and visit the washroom as frequently in good times as in bad was the underlying logic. The effectiveness of office security should not fluctuate as profits rise and fall.

As recently as November 1989 Mr Nicholas Wills, BET's chief executive, was spreading the gospel, applying the fateful phrase to the former British Electric Traction turned services conglomerate. While the good times lasted, most City analysts joined the chorus.

With that period of rapid economic growth now over, the chickens are coming home to roost. The truth of the matter, it is increasingly recognised, is much more complex than such glib assumptions allowed.

"While it was felt that service companies would generate cash during a downturn, the severity of this recession has meant that this cash generation has not always been there," says Mr Mike Murphy, an analyst with Warburg Securities.

For one thing, some support services – in common with professional services like advertising – are more discretionary and hence more recession-prone than others. It comes as little surprise that UK profits at BET's background music business are running below year-ago levels. This is in spite of growth in non-traditional customer sectors like financial services.

Also vulnerable are services like recruitment and plant hire, which are provided regularly as opposed to continuously, and where demand is tied immediately and directly to the performance of the customer's business.

Profit from personnel services at Guildford-based Hays, slipped by 2 per cent in the year to June 30, in contrast to the increases achieved by both distribution and delivery services. This was in spite of the unit's heavy concentration on the provision of accountancy personnel – a specialisation which, the group contends, makes it more stable than non-specialist agencies or "arms and legs providers."

But at least Hays was able to restrict the damage done to its margins by scything costs in line with tumbling demand. The decline in its personnel profits would have been greater, the group said, "but for firm action, swiftly taken, to reduce staff numbers and cut advertising costs and other overheads."

Tailoring costs to demand tends to be much trickier in capital-intensive sectors like plant and construction services.

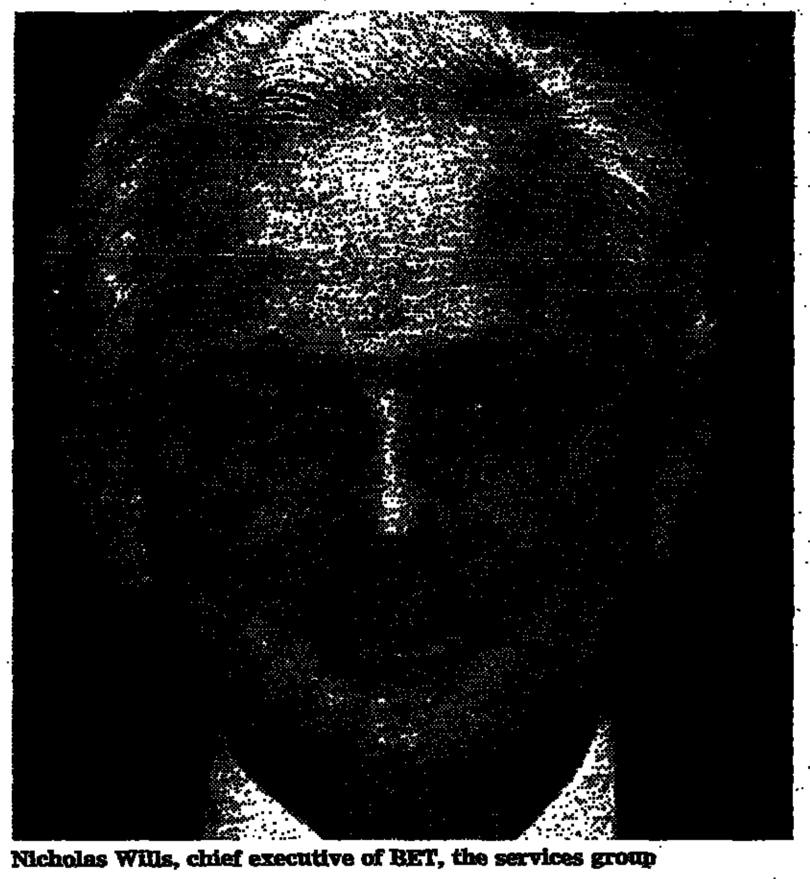
"It is quite easy to take out variable costs in labour-intensive service businesses, whereas with plant hire it is much more difficult," according to Mr Murphy.

Significantly, Salomon Brothers – in its analysis of BET's expected profit margins conducted last November prior to the recent round of profit downgrades – forecast a 0.6 percentage-point decline to 7.4 per cent in the year to March 1991. The most marked decline was forecast to occur in plant and construction services.

Even non-discretionary services like cleaning and workwear rental are liable sooner or later to be trimmed in response to a round of layoffs or a customer's cost-cutting drive.

There may admittedly be a lag before such cutbacks are passed on. But service providers generally pride themselves on the degree of flexibility with regard to changed requirements that their contracts permit. They would not long remain competitive if they didn't.

Some services are partly insulated from this sort of pruning. Security is unlikely to be affected unless a factory or office is closed. Canteen services where the provider is recompensed in the form of a management fee can be made to run more cheaply or efficiently without the fee itself being reduced.



Nicholas Wills, chief executive of BET, the services group

Long-term distribution contracts are often structured in such a way that the service provider's revenues fall less rapidly than volumes when times are tough. Many linen supply or washroom service agreements involve a fixed weekly charge, irrespective of volume, for the contract's duration.

It is hard though to escape the conclusion that support services are usually no more (or less) recession resistant in turnover terms than the businesses they serve.

Given identical balance sheets and management, the most resilient service company would be one with customers concentrated in, say, food retailing and pharmaceuticals.

Even so, several UK-quoted support service companies will perform comparatively well during this recession. But this will be due less to intrinsic resilience than the immaturity of the European market.

It has been estimated that the average UK manufacturer contracts out the equivalent of only 5 per cent of revenues. This compares with 8 per cent in the more mature US market and what BET terms "a reasonable expectation" of 20 per cent.

If anything, the recession should speed up the rate at which support service companies attract prospective new customers lured by the one-off cost savings that contracting out can initially generate.

Some report that this is already happening. "Our sales department is busier now than it has ever been," says Mr Garry Hawkes, managing director of Gardner Merchant, Trusthouse Forte's catering arm.

"In 'count the paperclips' eras like the present, people are seeking more cost effective answers to their feeding problems." Gardner Merchant puts contractor penetration of the potential UK staff feeding market at 38 per cent.

The established trend towards contracting out in the public sector is also working to the service companies' advantage. BET estimates the potential market in the UK alone to be "at least £20bn." To date, it says, central government has only contracted out 10 per cent of its services and local government a mere 1 per cent.

Meanwhile, the larger support service organisations expect to benefit from a tendency among companies who were in the vanguard of the original move towards contracting out to entrust their ancillary work to fewer and fewer service providers.

In two years, IBM UK has reduced from 850 to 45 its number of outstanding domestic support service contracts. "It may theoretically be possible to continue into single figures," according to Mr John Jack, the subsidiary's property director.

BET contracts confront the downturn

MOST ANALYSIS of BET's difficulties, underscored by the recent collapse in its share price, has focused understandably on the service group's stretched balance-sheet.

Even with last week's sale to Thorn EMI of the company's stake in Thames Television, gearing at the March 31 year-end is unlikely to be less than 90 per cent.

But an equally pressing issue is how BET's diverse businesses are faring as the economy deteriorates rapidly.

Essentially, the core business support service activities divide into three groupings: industrial and commercial, plant and construction, and distribution. In aggregate, these accounted for close to 90 per cent of the company's £2.69bn revenue in 1989-90.

The backbone of the industrial and commercial grouping is the quiver of textile rental, washroom and cleaning services. Trading under the rather unmemorable Initial, Allied Industrial and Laundry-craft brands, these contributed £786.7m of revenues.

A further £252.8m was generated by other industrial and commercial services, namely electronic and manned security, recruitment and waste management. Here, the main brands are Shorrock, Hestair and Biffa. This trio's proportional contribution is expected to rise in 1990-91 due to Hestair's inclusion for a first full year and the comparative buoyancy of the security and waste management sectors.

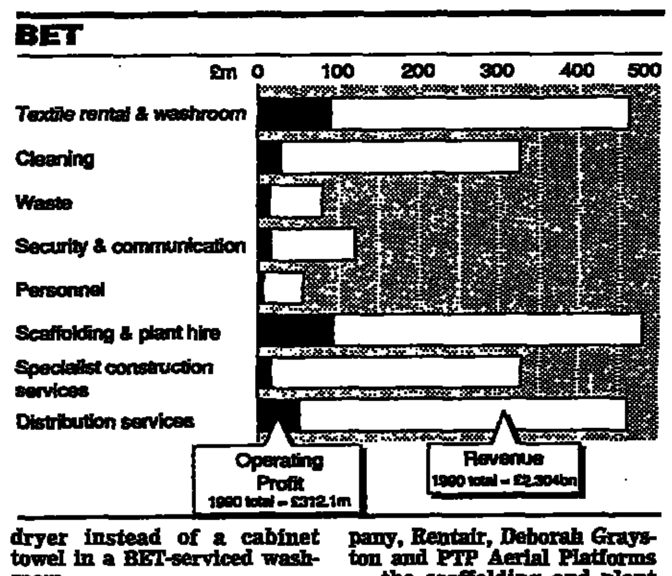
According to Mr Nicholas Wills, chief executive, this part of BET has experienced a "gentle decline" in its fortunes, as opposed to the "gentle growth" that had been expected.

This has been due largely to the impact of the recession on many of the smaller customers. Mr Wills describes these as BET's bedrock. "The profit margins are probably higher on the 15-20 towels we handle for the guy on the high street than the quarter of a million for Ikea," he says.

The bulk of group business in these areas is on the basis of contracts of at least one year's duration. This tends to provide a modicum of insulation from the underlying ebbs and flows of the customer's own commercial activity.

This is particularly the case in linen servicing contracts, which are structured around a weekly fee irrespective of the number of items handled. The group also books business on a pay-as-used basis. In these cases BET's revenues are clearly more likely to track those of its client.

Some modification of contracts terms might be allowed, however. For example a customer suffering a slump might be permitted to downgrade, perhaps by installing a hot-air dryer instead of a cabinet towel in a BET-serviced washroom.



In cases where a client wanted to cancel altogether, a lump sum is charged designed to recover anticipated payments over the remaining life of a contract. If a customer goes bankrupt, however, the group is normally an unsecured creditor.

The contribution from plant and construction services to 1989-90 revenues was £805.2m. This came from an array of companies including Grayston White & Sparrow – the world's largest crane-hire company, Rentair, Deborah Grayston and PTP Aerial Platforms – the scaffolding and plant hire specialists, and HMS Industrial and Sparrow Industrial Services – the contract labour operations.

As a capital-intensive part of a depressed industry, construction services have been hit particularly hard in the current year. "Our level of tendering is high, but decisions on whether or not to proceed with large projects are being pushed back," says Mr Bill Boulton, BET Plant Services chairman.

"Tailoring your stock of capital equipment is difficult, you need a lead period," he adds. "Projecting ahead for next year, I would be looking to spend significantly less than our depreciation."

Some construction-related contract structures do provide BET with a degree of protection from the vicious cyclicality of the industry. A hefty chunk of business is the provision of continuous care and maintenance services at the likes of power, steel and petrochemicals installations.

"To some extent, when a plant's workload falls, the maintenance increases," Mr Boulton points out. Even here though, the recession is squeezing margins owing to low bids from work-starved non-specialists at tenders.

In addition, certain plant hire customers have effectively postponed the economic downturn's impact on BET by agreeing to rent machinery, regardless of workload, for a fixed period. "We just hired off 15 cranes for five years," Mr Boulton says. He admits, however, that such contracts are "exceptional."

Distribution, which mainly consists of United Transport, contributed £459.3m in 1989-90. Two years ago, the unit was split into three pan-European sections: tankers, logistics and containers.

BET projects that profit margins from distribution "will not be down significantly" on the basis of current trading, although the volume of goods carried has fallen. It says it has been helped by the resilience of the petrochemicals/chemicals sector which constitutes its largest customer group.

However, margin erosion has occurred in the 10-15 per cent of the division's business that is transacted on a spot basis. Rising fuel costs have been a leading culprit, according to Mr Tim Gold Blyth, United Transport chairman. "We don't set out for spot business, but it is used to fill empty containers on return journeys," he adds.

Long-term contracts are generally structured so that customers "share the hit" if volumes fall below anticipated levels. The intimacy of the relationship built up with such customers affords protection from unscheduled contract cancellations, the group contends. "It is not in the customer's interests to change, because we have so much knowledge of their business," says Mr Gold Blyth.

Unhappy EFG shareholders hit at divestment policy

By Michiyo Nakamoto

DISGRUNTLED shareholders dominated yesterday's annual meeting of EFG, the forestry and home and leisure products group, expressing their dismay at the company's unexpected decision last week to dispose of its core forestry business.

An unusually heavy turnout was a clear indication of the concern of many shareholders at the company's decision to concentrate instead on garden leisure products.

Many shareholders took the management to task over what they considered poor decisions.

"My family's future is tied up in what I though was forestry, not in Christmas decorations, or pot holders and barbecues," one shareholder said.

The company announced the strategic switch in a circular to shareholders only one week before the meeting but the issue was not on the agenda.

As a USM-quoted company it is not required to obtain approval for the divesments.

The resignation in January of Mr John Campbell, the former chief executive who has been in the forestry business throughout his career, also raised suspicions among some shareholders that there had been a board struggle between members who wanted to keep the forestry business and those who wanted to sell it.

EFG built its business on buying, planting and managing forests for investors but this has been in serious decline since tax incentives were withdrawn in the 1988 budget. Forestry, timber and landscaping made up 64 per cent of group turnover last year.

The group reported a pre-tax loss of £84,000 in the year to September 30 compared with a previous profit of £2.01m and in spite of a rise in turnover to £49.9m (£42.3m). Earnings per share plunged to 1.26p from a previous 10.18p and the final dividend was passed.

A succession of acquisitions over the past few years had pushed bank borrowings up to over £9m and the high level of interest costs was an important factor behind last year's profits reversal as well as the decision to restructure the business.

The share price has plunged from a high of 126p in August 1987 to 23p at yesterday's close.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Castle Cairn ....fin	0.7☆	Apr 10	-	0.7	*
Gen Consolidated .....fin	6.11	Apr 4	5.46	10.41	9.46
Kleinwort O'seas......fin	1.7	Apr 23	1.9	3.2	3
Scot Amer Inv ....fin	0.98	Apr 5	0.9	3.8	3.3

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. ☆Includes special 0.2p.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- GT Venture Inv, Glasgow Income Trust, News Corp, News Intl, North American Gas Inv Trust, Photo-Me Intl.

Finals- Anglo & Overseas Trust, Crest Nicholson, Norsk Hydro, P&P, Trust of Property Shares, Yeoman Inv Trust.

FUTURE DATES

Interims-

Baldwin	Feb 19
Brierley Invs	Mar. 7
Domestic & General	Mar. 12
Fleming High Inc Inv	Feb. 20
Jos	Feb 20

Finals-

BTR	Mar 13
Capita	Feb. 25
Doutes	Mar. 8
English & O'seas Props	Feb 28
F&C Enterprise Trust	Feb. 21
Foreign & Colonial Inv	Feb. 27
German Smaller Co's Inv	May 7
Hampden Homecare	Apr. 11
Legal & General	Mar. 14
MMI	Feb. 22
Sumit	Mar. 4
Ward Hldgs	Feb. 21

NEWS DIGEST

Paramount rises to £264,000

PROFITS OF Paramount, the pubs and leisure operator which came to the USM in August, rose from £161,000 to £264,000 pre-tax for the half year to November 30 after taking account of a £449,000 rise in interest charges to £550,000.

Turnover rose by £1.55m to £2.66m. Earnings per 2.5p share worked through at 0.47p (0.28p).

The company is seeking to add to the 80-odd public houses it already owns and establish a corporate identity for them. Directors said all houses were showing increased profitability.

Scottish American nav falls 24.9p

Net asset value per ordinary share of The Scottish American Investment Company fell by 24.9p to 113.1p over 1990.

After-tax revenue for the 12 months rose from £8.08m to £9.89m, equal to earnings of 4.42p (3.61p) per share. A proposed final dividend of 0.98p makes a 3.8p (3.3p) total.

Directors said the recommended final indicated an increase of at least 3.2 per cent in the payout for 1991.

Nav declines 27% at Kleinwort O'seas

A 27 per cent contraction in net asset value per share for 1990 was yesterday reported by Kleinwort Overseas Investment Trust.

Nav at December 31 was 157.67p, down from 216.02p at the end of 1989.

Earnings per share improved to 3.58p (3.25p) and a recommended final dividend of 1.7p lifts the total for the year by 0.2p to 3.2p.

Geographical distribution at the year-end showed: UK 18.9 per cent; North America 29.3 per cent; Japan 15.6 per cent; other Far East 8 per cent; and Europe 28.2 per cent.

Castle Cairn assets decline

Net asset value per share of the Castle Cairn Investment Trust stood at 37.94p at December 31 1990. That was a decline of 20 per cent on the 47.48p standing at May 8, the date of the trust's inception.

Total income for the 34 weeks to end-December amounted to £168,710 and after-tax revenue worked through at £93,111. Earnings emerged at 0.78p and shareholders are to receive a dividend of 0.7p, including a special 0.2p payment.

The special dividend reflects an unusually high level of non-recurring income earned from holding significant cash balances in the first few weeks of the trust's life.

Video Store shares suspended at 1¾p

Shares of Video Store Group, the video rental company, were temporarily suspended at 1¾p pending clarification of its financial position.

The loss-making company has been in talks with its bankers for several months about a financial restructuring.

Video Store, formerly known as Goodman Group, transformed itself from a fashion retailer into a video rental chain, and drew up ambitious expansion plans to open 200 stores.

But last November the company announced that a series of setbacks and trading losses had pushed it into overall losses of more than £2.5m since February, thereby breaching its borrowing limits.

The video rental sector was once one of the fastest-growing retail markets but it has recently been severely hit by a downturn in trading, seemingly resulting from a combination of last year's World Cup, the weather, the spread of satellite television, and the recession.

Lawrie disposes of 51% Reece interest

Lawrie Group, a 70.9 per cent subsidiary of Camellia Investments, has sold its 51 per cent interest in Reece, for $6.96m (£3.5m) in cash.

Reece was affected in 1990 by the recession in the clothing industry which led to a continuing decline in demand for its industrial sewing machines and allied products. It reported a $2.7m loss for the first half of 1990 and further substantial losses were incurred during the third quarter.

The loss on disposal of Lawrie's interest in Reece will be about £6.1m. There will be a further loss of about £2.3m on translation from US dollars.

Lawrie said it would reinvest the proceeds when a suitable opportunity arose.

Environmental side lifts Huntingdon

Strong growth in environmental services lifted first quarter pre-tax profits at Huntingdon International, the life sciences and engineering services group, from £3.67m to £4.07m.

The group managed to increase profits in the three months to December 31 in spite of the adverse economic climate and the lower dollar exchange rate which depressed its US earnings. About 70 per cent of sales and 50 per cent of earnings are dollar-related.

Turnover rose 19 per cent to £28.38m (£23.76m) and earnings per share edged up to 3.3p (3.1p).

The bulk of the growth in turnover came from engineering and environmental services, particularly environment-related operations involving technical surveys on the effects of pollution, sample tests and site assessments. Dollar revenues in this division, which were supported by the acquisition of Southwestern Laboratories in Texas, were up 57 per cent.

However, the downturn in the construction industry, depressed the group's engineering revenues both in the US and at Whiteley, the engineering design and consultancy group, acquired in November.

Dean & Bowes £2.3m disposal

Dean & Bowes, a designer and refurbisher of licensed premises, hotels and leisure centres, is to dispose of its TFL subsidiary to the company's management and trustees of KG Ziemer's family settlement for some £2.31m.

The disposal will be achieved by demerging TFL from its parent via the cancellation of the 2.27m ordinary shares (12.3 per cent of the equity) in D&B held by the purchasers.

D&B directors will seek shareholders' approval to purchase up to a maximum 5 per cent of the company's own shares in the market.

General Consolid nav down 46%

The net asset value per capital share of General Consolidated Investment Trust was 138p at December 31 1990.

The figure showed a hefty decline of 46 per cent on the 254.8p of 12 months earlier, with most of the fall coming in the second half; nav at the interim stage in June was 225.3p.

Nav of the trust's stepped preference shares, however, improved over the year from 114.2p to 122.7p.

Net revenue for 1990 rose to £4.71m (£4.2m) for earnings of 10.71p (9.46p) per income share. A proposed final dividend of 6.11p lifts the total for the year by 10 per cent to 10.41p (9.46p). The stepped preference share distribution goes up from 2.795p to 3.005p.

Fleming Overseas net asset value lower

Fleming Overseas Investment Trust had a net asset value of 186.9p per share on December 31 1990 compared with 273.3p a year earlier and 238.7p at June 30.

Gross revenue for the half year to end-December was lower at £4.47m (£4.81m) and net revenue fell to £2.3m (£2.48m) for earnings of 1.72p (1.85p) per share. The interim dividend is maintained at 1.5p.

The geographical spread of the trust's investments at December 31 was: North America 35 per cent; continental Europe 23 per cent; Japan 23 per cent; other Pacific Basin 13 per cent; and UK 6 per cent.

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FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
High Income						
American Income	6	39.31	39.80	42.33	6.47	40000
Gilts & Fixed Int	6	111.0	111.0xd	117.8	9.76	40001
High Inc Equity	6	114.3	117.6xd	125.1	5.08	40002
Worldwide Bond	6	192.9	192.9	204.5	7.33	40003
Capital Growth						
American Growth	6	146.9	146.9xd	157.1	1.22	47004
Asian Pacific	6	95.24	95.24	101.8	.20	40005
Assets & Earnings	6	143.0	143.0	152.9	3.54	40006
Capital Reserve Acc	0	101.0	101.0	101.0	7.07	40007
Capital Reserve Inc	0	84.73	84.73	84.83	7.07	47580
Comdty & Energy	6	72.10	72.10xd	77.11	1.29	40008
1992 Enterprise	6	53.69	53.69	57.42	3.71	46597
Euro Capital Acc	6	79.49	79.49	85.01	1.41	40009
Euro Capital Inc	6	76.33	76.33xd	81.63	1.41	47581
General	6	146.8	146.8	157.0	3.18	40010
Japan	6	80.77	80.77	86.38	–	40011
Mastertrust	6	74.79	74.79	79.98	3.21	40012
UK Growth Acc	6	130.8	130.8	139.8	3.15	40013
UK Growth Dis	6	84.55	84.55xd	90.42	3.15	40014
US Emerging Cos	6	42.74	42.74	45.71	–	40015
Income & Growth	6	258.7	258.7xd	276.6	5.21	40016
Ethical	6	40.73	40.73	43.56	2.30	40017
International	6	50.16	50.16	53.64	.93	46852
Dividend & Growth	6	40.44	41.55xd	44.20	5.09	47871
Global Gwth & Sec	6	47.40	47.73	50.77	1.97	44856

Abtrust Management Ltd (1200)H
10 Queens Terrace, Aberdeen AB9 1QJ 0800 833580

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Amer Inc & Growth	5¼	23.76	23.76	25.24	3.16	40019
Cash	–	50.54	50.54xd	50.56	13.82	43696
European	5¼	62.66	62.66	66.41	1.00	40025
European Income	5¼	66.85	67.18xd	70.87	1.73	41377
Exempt	1	657.9	657.9xd	680.9	3.41	41329
Exempt Income	3¼	150.3	150.3xd	160.4	5.28	41062
Exempt American	3¼	278.9	278.9	290.4	1.97	41054
Exempt Pacific	3¼	182.0	182.0xd	190.0	2.04	41056
Extra Income	5¼	34.93	34.93xd	37.28	6.65	40023
Far East Emerg Econs	5¼	38.28	38.28	40.98	1.56	41380
Fund Inv Tst	5	94.63	94.63	101.0	1.70	40030
Fund Inv Tst Acc	5	150.6	150.6	160.7	1.70	40031
Gilt & Fixed Int	5¼	15.77	15.95xd	17.03	11.65	40026
Japan	5¼	133.5	133.5	141.8	0.00	40051

Brown Shipley & Co Ltd (1000)F
9-17 Perrymount Rd Haywards Hth 0444 41...

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price
Mngd P'folio Inc	6	69.69	70.32	75.07
Mngd P'folio Acc	6	124.2	125.4	133.8
UK General	6	100.1	100.1	106.6
Cons & General	6	16.76	16.76xd	17.85
European Inc	6	17.85	17.85	19.29
European Acc	6	18.24	18.24	19.68
Exempt	5	247.4	247.4	261.7
Financial	6	100.8	100.8	107.4
German	6	31.78	31.78	34.02
High Income	6	58.65	58.65	62.46
Income	6	81.68	81.68	87.40
Intl Income	6	70.89	70.89xd	75.50
Intl Growth &	6	22.05	22.05	23.49
Monthly Income	6	46.95	48.36	51.26
North American	4	51.42	51.42xd	54.76
Orient &	6	84.28	84.28	89.76
PEP	5	48.60	48.60	51.46
Recovery	6	30.28	30.28xd	32.25
Smaller Cos Acc	6	162.1	162.1	172.6
Smaller Cos Inc	6	97.94	97.94	104.3

Brycourt Unit Tst Mgmt Ltd (1400)...
Hesketh Hse, Portman Sq, W1H 6JR 071...

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price
Income Growth	1	160.9	160.9	167.4

Buckmaster Mangmt Co Ltd (1200)...
15 St Botolph Street, London EC3A 7JJ 071...

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price
Emerging Gwth	5¼	42.87	42.87	45.44
(Accum Units)	5¼	45.00	45.00	47.70
Fellowship Tst ♥	5¼	48.08	49.15	52.29
(Accum Units) ♥	5¼	51.07	52.20	55.54
General Inc	5¼	234.0	234.0	248.0
(Accum Units)	5¼	414.6	414.6	439.5
Income	5¼	136.6	136.6	144.8
(Accum Units)	5¼	283.4	283.4	300.4
International ♥	5¼	81.18	81.18	86.05
(Accum Units) ♥	5¼	112.1	112.1	118.8
Smaller Co s	5¼	76.36	76.36	80.94
(Accum Units)	5¼	86.95	86.95	92.17
Inv Portfolio ♥	3	44.21	44.21	45.76
(Accum Units) ♥	3	46.98	46.98	48.62
High Income Port ♥	3	40.11	40.11	41.51

Burrage Unit Tst Mangmt Ltd (0900)...
117 Fenchurch St, London EC3M 5AL 071...

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price
Short Dated Gilt	1¼	60.86	60.86	61.74

CCF Foster Braithwaite UT Mngt...
1 White Hart Yard, London SE1 1NX 071...

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price
CCF Sel High Inc Eqty	5¼	41.96	42.78xd	45.49
CCF Sel High Inc Eq Acc	5¼	43.89	44.72xd	47.58
CCF Sel Intl Gwth	5¼	37.94	37.94xd	41.05
CCF Sel Inv Tst	5¼	41.21	43.12	45.88
CCF Sel Inv Tst Acc	5¼	41.76	43.69	46.48

Matheson Unit Trust Managers Ltd (1200)H
Admin: 5 Rayleigh Rd, Hutton, Brentwood Essex
Enquiries 0277 227300 Dealing: 0277 261010

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
UK Growth (14-1)	6	57.41	57.41	61.40	4.02	46355
UK High Income	6	30.01	30.01	32.10	6.29	46356

Guide to pricing of Authorised Unit Trusts
Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE. Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before...

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation,
Centre Point,
103 New Oxford Street, London WC1A 1QH

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
TSB Unit Trusts (1200)H						
Charlton Pl, Andover, Hants SP10 1RE						0264 346794
TSB American	6	102.89	103 6	110 21	0 93	41457
Do Accum	6	112 47	113 25	120.47	0 93	41458
TSB Brit Growth	6	62 84	63 78	67 85	3 87	41459
Do Accum	6	69 48	70 51	75 01	3 87	41460
TSB European	6	61 97	62.36	66 33	1 35	41461
Do Accum	6	64 22	64 62	68 74	1.35	41462
TSB Extra Income	6	137 39	140 57	149 54	6.18	41463
Do Accum	6	194 3	198 82	211 5	6.18	41464
TSB Smaller Cos	6	37 29	39 05	41 54	3 28	41465
Do Accum	6	39 09	40 95	43 56	3.28	41466
TSB General	6	189 23	192 5	204 79	4 37	41467
Do Accum	6	353 06	359 19	382 11	4 37	41468
TSB Premier Income	5	41 88	42 5	44 27	9.5	41469
Do Accum	5	73.65	74 74	77 85	9 5	41470
TSB Income	6	252 78	257 9	274 42	6 03	41471
Do Accum	6	469 92	479 55	510 15	6 03	41472
TSB Pacific	6	185 53	188 94	200.99	0 65	41473
Do Accum	6	193 04	196 59	209 13	0 65	41474
TSB International	6	317 64	317 64	337 91	1 7	41475
Do Accum	6	407.44	407 44	433 44	1 7	41476
TSB Nat Resources	6	54 07	55 15	58 66	1 32	41477
Do Accum	6	58 66	59 83	63 64	1 32	41478
TSB Slctd Opps	6	66 44	68 08	72 42	4 03	41479
Do Accum	6	79 29	81 26	86 44	4 03	41480
Environmental Inv	6	39 33	40 07	42 62	2 6	46849
Do Accum	6	40 23	40 98	43.59	2 6	46850
TSB Selector	6	40.89	41 71	44 37	4 85	47660
Do Accum	6	42 14	42 99	45 73	4 85	47661
TSB High Income	6	43 58	44 33	47 15	6 68	44558
Do Accum	6	44 87	45 64	48 55	6.68	44559
TSB Intl Income	6	47 28	47 45	50 47	7 03	44560
Do Accum	6	47 28	47 45	50 47	7.03	44561
TSB Selector Income	6	44 42	44 97	47 84	6 9	44562
Do Accum	6	44 42	44 97	47 84	6 9	44563
Target Trust Mngrs Ltd (1600)F						
Target Hse, Gatehouse Rd, Aylesbury, Bucks						Dealing 0296 312156
Admin 0296 394000						
American Eagle	5	58 74	58 74	62 73	1 23	41482
Australia	5	5 028	5 028	5.381	4.96	41483
Equity	5	138 1	138 1	148 3	5.19	41486
Euro Spec Sits	5	90 57	90 57	97 43	0 25	41487
Financial	5	24 15	24 15	26 03	5 74	41488
Global Opps Inc	5	53 78	53 78	57 92	1 84	41489
Global Opps Acc	5	53 78	54.95	59 17	1 84	41490
Gold & Gen Inc	5	35 20	35 20	37 91	1 45	41491
Gold & Gen Acc	5	65 84	65 84	70 83	1 45	41492
Income	5	86 77	86 77	93 42	6 85	41493
Japan & General	5	108	108 0	116 2	0.00	41494
Preference Share	5	17 07	17 34	18 63	14 24	41497
UK Capital	5	75 13	75 13	80 77	4 32	41500
World Income	5	53 53	53 53	57 66	6 10	41501
Worldwide Capital	5	141 3	141 3	152 1	3.59	41502

	Bid Price	Offer Price	Yield Gross	City-line
M & G Securities Ltd				
Charibond	99 7	99 7	10 83	40883
(Accum Units)	528 8	528 8	10 83	40884
NAACIF Jan 9	–	39 5	10 13	46917
MIM Ltd				
Exempt Funds				
Intl Mngd P Folio	932 0	1007 0	–	46964
Mngd Pens (Acc)	56 0	59 7	–	41007
Morgan Grenfell Unit Trust Managers Ltd				
Exempt Funds				
UK Equity F Jan 8	110 2	118 1	3 25	46925
UK Small Co F Jan 8	421.6	463 2	2 31	46926
Fixed Interest F Jan 8	101 4	106 6	8 31	46920
US Small Co Jan 8	103 8	111 1	0 00	46923
Managed Jan 8	92.55	98.42	2 59	46924
Intl Bond Jan 8	107.4	113 3	8 09	47790
Japan Jan 8	60 63	64 79	1 05	47877
European Jan 8	73 93	79 13	1 78	47876
Nth American Jan 8	78 68	84 52	1.65	47878
Murray Johnstone UT Mngmt				
Murray Exempt Funds				
Amer Exmt Jan 9	39 1	40 6	2 49	41064
Euro Expt Jan 9	44 4	48 6	2 71	41065
Fixed Int Ex Jan 9	44 4	45 6	11 25	46594
Japan Expt Jan 9	37 0	38 6	0 73	41066
Managed Ex Jan 10	38 0	39 5	5 13	41067
SE Asia Expt Jan 9	54 4	57 1	7.15	41068
Sm Cos Expt Jan 9	27 3	28 6	5 94	41069
UK Eqty Ex Jan 9	35.5	37 2	4 69	41070
Phillips & Drew Fund Management Ltd				
Small Co s Jan 2	589 63	631 9	5 97	41138
Do Accum	662 4	709 8	5 97	41139
Int Expt Jan 9	142 1	144 8	2 99	41140
UK Index Jan 2	990 8	1012	5 76	46945
Do Accum	1059	1080	5 76	46946
Convertible Jan 4	80.31	82 94	8 83	46938
Wortdex UK Index Jan 7	637 6	646 1	3 07	47881
Do Accum	637 6	646 1	3 07	47883
Japan Index Jan 7	510 5	518 0	0 57	47881
Do Accum	511 8	519 2	0 57	47882
USA Index Jan 7	744 0	762 4	3 66	47885
Do Accum	748 9	767 3	3 66	47886
European UK Index Jan 7	746 8	765 4	3 26	47879
Do Accum	763 3	782 2	3 26	47880
Pacific ex Jap Index Jan 7	697 9	718 9	5 76	47883
Do Accum	723 7	745 4	5 76	47884
Managed Exempt Jan 9	89 83	91 59	5.82	40338
American Exempt Jan 9	99.46	101 2	4 83	40574
European Exempt Jan 9	99 98	101.5	4 23	40628
Japan Exempt Jan 9	93 65	95 80	0 20	40635
Pacific Basin Jan 9	94 96	98 14	5 44	40636

INSURANCES

OTHER UK UNIT TRUSTS

Continued on next page

FT MANAGED FUNDS SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 44p per minute peak and 33p off peak, inc VAT

N & P Life Assurance Ltd

National Financial Management Corp PLC

National Mutual Life

National Provident Institution

Norwich Union Asset Management Ltd

Norwich Union Life Insurance Soc.

Pearl Assurance (Unit Funds) Ltd

Pegasus Assurance Ltd

Premium Life Assurance Co Ltd

Professional Life Assurance Co Ltd

Prolific Life & Pensions Ltd

Property Equity & Life Ass. Co

Prosperity Life Assurance Ltd

Providence Capital Life Assc. Co Ltd

Provident Life Assoc Ltd

Provident Mutual Life Assc. Assn.

Prudential Assurance Co

Prudential Holborn Life Ltd

Prudential Holborn Pensions Ltd

Prudential Pensions Limited

Regency Life Assurance Co Ltd

Reliance Mutual

Royal Heritage Life Assurance Ltd

Royal Heritage Life Assurance Ltd—Contd.

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd

Standard Life Assurance Company

Sun Alliance Group

Sun Life of Canada (UK) Ltd

Sun Life Unit Assurance Ltd

Swiss Life (UK) PLC

Swiss Pioneer Life Plc

TSB Life Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Templeton Life Assurance Limited

Tunbridge Wells Equitable

Western Assurance Society

Windsor Life Assur Co Ltd

Woolwich Life Assurance Co Ltd

Zurich Life Assurance Co Ltd

OFFSHORE INSURANCES

AEtna Intl Assurance (Bermuda) Ltd

Albany International Assurance Ltd

CMI Insurance Co Ltd

Eagle Star Intl Financial Services

Equity & Law Intl Life Assce Co Ltd

Eurolife Assurance Group

Fidelity Life Assurance Ltd

Finsbury Life International Ltd

Hansard International Ltd

Isle of Man Assurance Ltd

NEL Britannia International Ltd

Premium Life International Ltd

Providence Capital International Ltd

Royal Life Intl. Ltd

Royal Skandia Life Assurance Ltd

Sun Alliance International Life

Target International Group

MANAGEMENT SERVICES

David M. Aaron (Personal Fin. Plan.) Ltd

The Analysis Group PLC

Bryan, Wallis & Partners Ltd

Cameron Law & Company Ltd

James Campbell & Son Financial Services

Chase de Vere PLC

Drummond Moore Plc

ECU Futures Plc

Edinburgh Money Management Ltd

Fairmount Gtm Rejls Ltd

Gartmore Fund Managers Ltd

Hurstminster Financial Services(Pty) Ltd

Johnson Fry Financial Services

L.P.S. Lamont plc

Knight Williams & Company Ltd

Macarbey & Dowie F.S. Ltd

Markham Bingo & Partners

PBR Fund Management Ltd

Pendleton May Financial Services Ltd

Roxborough Financial Management Ltd

Rothschild Asset Management

Sharp (Albert E) & Co.

Siltala Fund Managers Limited

Tattersall Investment Mngt. Ltd

Towry Law & Co

J. D. Ward Financial Services Ltd

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Orion Fund Limited

CANADA (SIB RECOGNISED)

Ivory & Sime Pembroke Inc

GUERNSEY (SIB RECOGNISED)

Adams & Neville Fund Mngmt (Guernsey) Ltd

BBV-Hambros Asset Mngmt (Guernsey) Ltd

Baring Intl Fd Managers (Guernsey) Ltd

Gartmore Invest Managers (Guernsey) Ltd

Guinness Flight Fd Mngrs (Guernsey) Ltd

Guinness Flight Fd Mngrs—Contd.

Hambros Fd Mgrs (CI) Ltd

Leopold Joseph Fund Mngmt (Guernsey) Ltd

Lazard Fund Mngrs (Channel Islands) Ltd

Lion World Fixed Income Fund

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Prolific International Mngmt Ltd

Rothschild Asset Management (CI) Ltd

Royal Bank of Canada Funds

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)

Adams & Nevile Fund Mngt (Guernsey) Ltd

Arab Bank Fund Managers (Guernsey) Ltd

Bachmann Global Investment Fund Ltd

Dentrust Management (Guernsey) Ltd

Finan-Capell Fund Mngrs (Guernsey) Ltd

John Govett Management (Guernsey) Ltd

Hambros Fund Managers (CI) Ltd

Havelet Throgmorton Mngmt Ltd

Henderson Admin. (Guernsey)

Hill Samuel Fd. Mngrs. (Guernsey) Ltd

Holborn Fund Management (Guernsey) Ltd

Kleinwort Benson Intl Fd Mngrs Ltd

Kleinwort Benson Islamic Fd Mngt Ltd

Lazard Fund Managers (CI) Ltd

M & G (Guernsey) Ltd

Merrill Lynch Guernsey

NM Financial Mngt Intl Ltd

هكذا من الأجل

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Nikko Capital Mngt (Europe) Ltd

Sanwa International (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

Sovereign Asset Management Limited

Stonehage Fund Mngrs Ltd

U.S. Treasury Securities Fund Ltd

Yamaichi Capital Mangmt (Guernsey) Ltd

IRELAND (SIB RECOGNISED)

GAM Fund Management Ltd (a)

MI Global Asset Mngmt Co Ltd

IRELAND (REGULATED)(**)

Baring International Fd Mngrs (Ireland) Ltd

ISLE OF MAN (SIB RECOGNISED)

Allied Dunbar Intl Fund Mgrs (1600)F

Asset Global Funds Ltd

CMI Fund Managers (IoM)

Equity & Law Intl Fund Mngrs Ltd

Gartmore Fund Managers (IoM)

Mercury Fund Managers Ltd

Refuge Overseas (1200)

Sun Life Management (IoM) Ltd

Unibank Scandinavian Fund Ltd

ISLE OF MAN (REGULATED)(**)

CAL Investments (IoM) Ltd

Duncan Lawrie Inv. Mgt. Ltd

Equity & Law International Fund Mgs Ltd

Gartmore Fund Managers (IoM)

John Govett Management (IoM) Ltd

JRI Global Funds Limited

Sarasin (Isle of Man) Ltd

Target International (Isle of Man) Ltd

JERSEY (SIB RECOGNISED)

AIB Fund Managers (CI) Ltd

Barclays International Funds

Brown Shipley Unit Trust Mngrs

Capital House Fund Mgrs (CI) Ltd (0900)H

Gartmore Fund Managers International Ltd

John Govett (Channel Islands) Ltd (1000)F

Hill Samuel Fund Mgrs (Jsy) Ltd (1000)F

INVESCO MIM International Limited

Lloyds Bank (CI) U/T Mgrs.

Midland Bank Fund Managers (Jersey) Ltd

Royal Trust Jsy Fd Mngt Ltd (1400)F

TSB Trust Funds (CI)

JERSEY (REGULATED)(**)

Barclays Intl Funds

Brown Shipley Fund Mgmt (CI) Ltd

Cater Allen Investment Management (CI)

Citibank (CI) Ltd "Citifunds"

EBC Trust Company (Jersey) Ltd

Equitilink International Mngt Ltd

Fidelity Investment (CI) Ltd

Fleming Group

Foreign & Colonial Mngt (Jersey) Ltd

John Govett Management (Jersey) Ltd

Hill Samuel Investment Services Intl (z)

INVESCO MIM International Limited

Midland Bank Fund Managers (Jersey) Ltd

Morgan Grenfell Funds Mngt (Jersey) Ltd

Murray Johnstone (Jersey) Ltd

Nat. Westminster Jersey Fd. Mgrs. Ltd

Northgate Unit Tst. Mngr. (Jersey) Ltd

Perpetual UT Mngrs (Jersey) Ltd

The Portugal Fund Limited

Prudential Intl Financial Services Ltd

Royal Trust Intl Fd Mngt (CI) Ltd

Schroder Mngt Services (Jersey) Ltd

Scimitar Worldwide Money Fund Ltd

Scimitar Worldwide Selection Fd Ltd

Scrimgeour Kemp-Gee Mngmt. Jersey

TSB Trust Funds (CI)

Target Internat. Management (Jersey) Ltd

Tyndall International (Jersey) Ltd

Warburg Asset Management Jersey Ltd

Wardley Fund Managers (Jersey) Ltd

Worldinvest (Managers) Jersey Ltd

LUXEMBOURG (SIB RECOGNISED)

Abbey Global Investment Fund (a)

AEtna Federated Intl Invst (Lux) SA (u)

Barclays Intl Funds (Luxembourg) (1400)

CMI Asset Management (Luxembourg) SA (a)

Commercial Union Luxembourg SA (u)

EquiFund-Wright National Eqty Fd (u) (z)

Fidelity Funds (u)

Fleming Group

Gartmore Luxembourg SA (u)

Henderson Management SA (u)

Hill Samuel Inv Services Intl SA (u)

Hypo Foreign & Colonial Port Fd Sicav (u)

INVESCO MIM International Limited (u)

Ivory & Sime (Luxembourg) SA (u)

Kleinwort Benson Select Fund (u)

Liberty ALL-STAR World Portfolio-Eqty Fd (u)

Midland Internatnl Circuit Fund SICAV (u)

Morgan Grenfell UT Mgrs/Deutsche Bank

Nomura Global Fund (u)

Norwich Union Intl Portfolio

Saxonia Group (Luxembourg)

Schroder International Selection Fd (u)

Touche Remnant (Guernsey) Ltd (u)

Wardley Investment Services (Lux) SA (u)

LUXEMBOURG (REGULATED)(**)

Alliance Capital

Asian Development Equity Fund

Banque Paribas Luxembourg

Capel-Cure Myers Intnl Fd Sicav (u)

CM International Fund (u)

CM Investment Serial Funds

Carlesa International (u)

Credit Commercial de France

Credit Suisse

Daiwa Japan Govt Fund

Dean Witter World Wide Invest. Tst SA

The Dragon Fund Sicav

Dresdnerbank Asset Management SA (u)

Espirito Santo Investment Mgmt (SICAV)

Eurocs Management S.A.

Europe Plus Investment (SICAV) (u)

Europe Value Fund (u)

Fidelity Intl Inv Mgmt (Luxembourg) SA

Finsbury International Group

First Arrows Intl Bond Fund (u)

Fleming Group

Gartmore Luxembourg S.A.

Gota Global Selection (u)

International Bond Trust

International Specialty Fund (u)

INVESCO MIM International Limited

Investissements Atlantiques SICAV

JC Global Fund-SICAV

Latin American Management SA

Lloyds Bank Luxembourg

Meditrust Global Fund

Merrill Lynch Asset Management

Mediterranean Fund (SICAV) (u)

Morgan Stanley Sicav

Murray Universal Sicav

Nat Income & Gwth Fd

Nikko Luxembourg S.A.

Nomura Asia Equity Fund

Nomura Asian Infrastructure Fd SICAV

Nomura Dragon Global Fund

Nomura Prudential Fd Pt II

Nomura Prudential Global Portfolio

Nomura Rosenberg Alpha Fund

Rosenberg Global Mngt Co SA (u)

Rosenberg Management SA (u)

Rosenberg US Japan Mngmt Co SA (u)

SCI/TECH SA

Security Pacific Funds S.A. Lux

Strategic International Gold Fund S.A.

Target International Fountain Fund

The French Prestige Fund

Frobisher Fund Limited

Templeton Worldwide Investments

Top Brand Fund Intl-SICAV (u)

Transworld Bond Trust

US Pacific Stock Fund (u)

Unibank SA, Frontrunner I (u)

Union Financial Services SA Lux

Viking Fund-SICAV

World Bond Fund-SICAV (u)

World Capital Gwth Fd-SICAV (u)

Yamaichi Advanced Technology Fd

Yamaichi 1992 OMNI Fund SICAV (u)

SWITZERLAND (SIB RECOGNISED)

B.I.A. Bond Investments AG

OTHER OFFSHORE FUNDS

ATSP Management Limited

Aberdeen Fund Managers (Gsy) Ltd

Adig Investment

Aetos Malaysian Growth Fd (Cayman) Ltd

Alliance Capital

Arral Associates Ltd

Asian Convertibles & Income Fd (Cayman)

Austro-Hungary Fund Ltd

Julius Baer Bank & Trust Co Ltd

Bank of Ireland Unit Managers Ltd

Baring International Group

Bermuda Intl Investment Mgmt Ltd

Bordier Funds Ltd

Bridge Singapore Asset Management Ltd

Butterfield Management Co Ltd

Cantrade ITEC Fund Management

Citizens Investment Trust Mgt Co Ltd

Credit Lyonnais Intl Asset Mngt (HK) Ltd

Credit Lyonnais Rouse (Bermuda) Ltd

DWS Deutsche Ges. F. Wertpapiersp

Daiwa APT Japan Fund

Daiwa Intl Capital Management (HK) Ltd

Daiwa Japanese Equity Warrant Fund

Deutscher Investment-Trust

Dreyfus Intercontinental Inv. Fd.

Elders (Switzerland) Invest. Mngt. SA

Emerging Markets Management

Ermitage Group

Europe 1992

FTM / Swiss Financial Services

Fidelity Investment (CI) Co Ltd

Fidelity Japan OTC Regional Mkts Fd Ltd

First Mexico Income Fund

Five Arrows Chile Fund Ltd

Forbes Securities Management

Formosa Fund

Frankfurt Trust Investment-GmbH

GT Chile Growth Fund Ltd

GT European Warrant Fd Mngt (Lux) SA

GT Investment Mngmt Co SA

GT Management Plc

GW Investment Management Ltd

Gaia Currency Funds

Gartmore Investment Ltd

Gartmore Fund Managers International Ltd

German Selection Associates N.V.

Gerrard SA

Global Asset Management Corpn

Global Government Plus Fund

John Govett (IoM) Ltd

Granville Management Limited

Green Bee International Tst

Indosuez Asia Invest Services Ltd

The India Magnum Fund NV

The Japan Capital Secured Trust

Japan Selection Assets N.V.

Jardine Fleming Unit Trusts Ltd

Kestrel Management Ltd

Korea Investment Trust Co Ltd

Laxmi Asia Ltd

Lehman Brothers Opportunity Fund

Lloyds Bank (CI) U/T Mngrs

London & Bishopsgate International NV

London Portfolio Services Ltd

McDonnell & Co (Bermuda) Ltd

Magnum Fund Mngt (Bermuda) Ltd

Malaysia Capital Fund Ltd

Malaysia Growth Fund

Malaysian Smaller Co's Fd (Cayman) Ltd

Manulife International Futures

Meridian Funds

Merrill Lynch Guernsey

Morgan Stanley Japanese Warrant Fund NV

NM Financial Mngt Intl Ltd

The New Zealand Fund

Newport International Management

Nomura Warrant Fund 1990 Ltd

North Star Fund Managers (Cayman) Ltd

Optima Group

Orbis Investment Management Ltd

Oriel Futures Trading (Cayman) Ltd

Pacific Growth Fund

Pierson Holding & Pierson

Portugal Fund Ltd

Prosperity Fd Mgrs

Putnam International Advisers Ltd

RK Orient Fd

Real Estate Strategies Ltd

Rothschild Asset Management (CI)

NM Rothschild Asset Management Ltd

Royal Trust North American Bond Fd

Sabre Fund Mngt Ltd

Schroder Japan Warrant Fund

Schroders Australia Ltd

Scimitar Asset Mngt

Scudder, Stevens & Clark Inc

Sequoia Securities (Bermuda) Ltd

Siam Smaller Companies Fund

Singer & Friedlander Ldn. Agents

Societe Generale Merchant Bank plc

Sodetic Asset Management

Sterling Offshore Fund Admin. Ltd

Taiwan Fund Managers Limited

Taipei Fund

The Thai Development Capital Fd

The Thai-Euro Fund Ltd

The Thai Prime Fund Limited

The Thailand Fund

The Thailand Intl Fund Ltd

Three-Way Asset Allocation Fund

Tudor BVI Futures Ltd

Tyndall International

Wardley Investment Services Ltd

Warburg Inv Mngt (Isle of Man) Ltd

Wellington Fd Mngrs (Bermuda) Ltd

Wells Fargo U.S. IT Fund

Xinjiang International Fund

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Short sterling slides

SHORT STERLING futures on Liffe have inevitably been influenced by the threat of war, but this is only one factor behind the recent price fall.

British officials, including Mr Norman Lamont, chancellor of the exchequer, have warned against cuts in interest rates until this can be justified by sterling's position in the European Monetary System.

UK clearing bank base lending rate 14 per cent from October 8, 1990

The pound moved off the bottom of the EMS exchange rate mechanism last week, for the first time since early November. This was partly because the market took Mr Lamont's warning seriously, but it also reflected the pound's attraction, based on the UK's oil resources in the event of war in the Gulf, and the lack of demand for the D-Mark on signs of unrest in the Soviet Union.

The pound's improvement, however, has not prevented short sterling futures falling below several technical support points. March delivery fell through support at 87.20 and 87.17 on the Friday before last, and showed a steady decline throughout last week, dropping below support at 86.95 and 86.82.

At last Friday's close of 86.77 the contract was still discounting a rate of under 13½ per cent for three-month interbank at delivery in March, compared with the present cash value of around 14 per cent.

The pound's improvement against its ERM partners has been based on the belief that rates will not be cut; but if sterling continues to advance, it will in turn encourage speculation about lower rates.

In essence, it is a market looking both ways: the view that interest rates can fall if sterling improves, while sterling can improve if rates hold firm. It is hardly a solid foundation for any reversal in short sterling's downward trend.

£ IN NEW YORK

Jan.11	Close	Previous Close
£ Spot	1.9070-1.9080	1.9130-1.9140
1 month	1.13-1.11pm	1.09-1.07pm
3 months	3.02-2.99pm	2.96-2.92pm
12 months	9.52-9.42pm	9.20-9.10pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Jan.11	Previous
8.30 am	93.8	93.8
9.00 am	93.8	93.8
10.00 am	93.8	93.8
11.00 am	93.7	93.7
Noon	93.7	93.8
1.00 pm	93.7	93.8
2.00 pm	93.8	93.7
3.00 pm	93.7	93.8
4.00 pm	93.7	93.8

CURRENCY RATES

Jan 11	Bank rate %	Special * Drawing Rights	European † Currency Unit
Sterling	–	0.739974	0.700694
U.S Dollar	7	1.41261	1.33412
Canadian $	12.82	1.62789	1.53958
Austrian Sch	6½	15.1954	14.4179
Belgian Franc	10¼	44.4796	42.2450
Danish Krone	9½	8.29908	7.88933
D-Mark	6.00	2.15889	2.04974
Dutch Guilder	7.25	2.43336	2.04974
French Franc	10¼	7.32297	6.95611
Italian Lira	12½	1623.64	1541.91
Japanese Yen	6	192.186	179.039
Norway Krone	8	8.43328	8.00940
Spanish Peseta	–	136.003	128.970
Swedish Krona	11	8.04764	7.61116
Swiss Franc	6.00	1.81308	1.71768
Greek Drach	20½	N/A	215.567
Irish Punt	–	N/A	0.766825

† European Commission Calculations.
* All SDR rates are for Jan.10

CURRENCY MOVEMENTS

Jan 11	Bank of England Index	Morgan** Guaranty Changes %
Sterling	93.7	–18.8
U.S Dollar	61.8	–17.3
Canadian Dollar	102.6	+1.0
Austrian Schilling	110.1	+11.8
Belgian Franc	112.0	–1.8
Danish Krone	110.4	+4.3
D-Mark	119.8	+25.4
Swiss Franc	116.7	+26.2
Dutch Guilder	115.1	+16.5
French Franc	104.5	–12.1
Lira	99.5	–19.7
Yen	131.8	+65.0

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) **Rates are for Jan.10

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.9070	1.8960	1.8773	1.8526	1.8140

IMM-STERLING $s per £

	Close	High	Low	Prev.
Mar	1.8854	1.8880	1.8790	1.8878
Jun	1.8859	1.8620	1.8550	1.8628
Sep	1.8372	1.8384	1.8350	1.8418

OTHER CURRENCIES

Jan 11	£	$
Argentina	11323.9 - 11346.0	5935.00 - 5945.00
Australia	2.4555 - 2.4575	1.2920 - 1.2930
Brazil	348.515 - 348.990	182.70 - 182.90
Finland	7.0000 - 7.0230	3.6815 - 3.6865
Greece	304.70 - 309.60	159.45 - 162.05
Hong Kong	14.8375 - 14.8515	7.7975 - 7.7995
Iran	124.70*	65.10*
Korea(Sth)	1361.25 - 1383.20	714.90 - 720.50
Kuwait	N/A	N/A
Luxembourg	60.10 - 60.20	31.50 - 31.60
Malaysia	5.1805 - 5.1895	2.7225 - 2.7245
Mexico	5636.95 - 5640.35	2955.00 - 2956.00
N.Zealand	3.1990 - 3.2040	1.6775 - 1.6795
Saudi Ar.	7.1530 - 7.1945	3.7490 - 3.7510
Singapore	3.3435 - 3.3515	1.7560 - 1.7580
S.Af (Cm)	4.9150 - 4.9280	2.5870 - 2.5885
S.Af (Fn)	6.3140 - 6.4210	3.3110 - 3.3670
Taiwan	51.70 - 51.80	27.15 - 27.20
U.A.E.	7.0060 - 7.0470	3.6720 - 3.6740

* Selling rate

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

	Close	High	Low	Prev.
Mar	94-20	95-05	94-05	94-21
Jun	94-04	94-20	94-22	94-05
Sep	93-20	93-22	93-08	93-21

JAPANESE YEN (IMM) Y12.5m $ per Y100

	Close	High	Low	Prev.
Mar	0.7454	0.7470	0.7423	0.7433
Jun	0.7449	0.7450	0.7427	0.7428
Sep	0.7450	-	-	0.7429

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

MONEY RATES

LONDON MONEY RATES

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1990/91 High	1990/91 Low	Stock	Closing Price p	+ or -
190	Nil	–	28pm	16½pm	London Intl. Group	16½pm	
14	Nil	–	1pm	¼pm	New London 5p	½pm	+¼

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital; cover based on dividend on full capital. g Assumed dividend and yield. q Earnings based on preliminary figures. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate cover based on previous year's earnings. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990-91. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1990. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ¶ Issued by tender. § Offered to holders of ordinary shares as a "rights". † Introduction. ‡ Placing price. †† Reintroduction. ‡ Unlisted Securities market. ° Third Market. ♦ Issued in connection with reorganisation, merger or takeover.

FT LONDON INTERBANK FIXING

(11.00 a.m. Jan.11) 3 months US dollars		6 months US Dollars	
bid 7¼	offer 7⅜	bid 7¼	offer 7⅜

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

	Jan.11	Jan 4		Jan.11	Jan.4
Bills on offer	£250m	£250m	Top accepted rate of discount	13.0959%	13.0959%
Total of applications	£1123m	£1322m	Average rate of discount	13.0826%	13.0782%

WEEKLY CHANGE IN WORLD INTEREST RATES

FINANCIAL TIMES STOCK INDICES

	Jan 11	Jan 10	Jan 9	Jan 8	Jan 7	Jan 4	1990/91 High	1990/91 Low	Since Compilation High	Since Compilation Low
Government Secs.	83.29	83.31	83.39	83.12	82.98	82.96	84.20	74.13	127.4	49.18
Fixed Interest	91.06	91.09	91.05	90.97	90.93	90.91	92.91	83.80	105.4	50.53
Ordinary	1646.0	1650.3	1668.5	1636.9	1647.8	1659.5	1968.3	1510.4	2008.6	49.4
Gold Mines	172.0	172.2	170.2	174.9	167.6	157.8	378.5	136.2	734.7	43.5
FT-Act All Share	1012.23	1013.81	1023.43	1011.39	1017.62	1023.21	1226.83	962.09	1238.57	61.92
FT-SE 100	2106.1	2108.7	2128.9	2099.9	2113.3	2126.1	2463.7	1990.2	2463.7	986.9
FT-SE Eurotrack 100	929.86	928.73	941.77	918.79♣	925.46	947.24♣	1003.35	918.79	1003.35	918.79

♣-Indicative

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

NOTES–Gross rate to those exempt from composite rate of tax. Net actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers –compounded annual rate. Int Cr: frequency interest credited

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS—Contd

AMERICANS—Contd

CANADIANS

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LONDON SHARE SERVICE

BANKS, HP & LEASING

Market Cap. £m	Stock	Price	Week % change	Y'ld Gr's	Last xd	Dividends Paid	City-line
2,411.9	ABN Amro Fl5	£9[illegible]	-1.3	8.9	4.9	Aug May	1567
1,212.7	ANZ SA1	125	-2.3	12.4	28.12	Jan Jul	1698
2,868.9	Abbey National 10p	219	-3.9	3.5	6.8	Apr Oct	5411
864.7	Allied Irish Ord.	133	-0.7	6.7	19.11	Dec July	1354
33.0	Anglo Irish	95	-3.5	7.6	10.12	Jan July	1355
112.0	Ansbacher (H.) 1p	60		5.6	12.3	April	1624
767.2	Bancaire Cie Fr100	£44[illegible]	-1.5	2.9	9.5	May Mar	2202
3,153.8	Banco Bilbao Vz	£13	1.0	6.2	9.12	Dec June	-
2,527.4	Banco de Santander	£23¾		4.2	31.10	Apr Oct	-
485.7	Bank Ireland Ir£1	145	0.7	9.1	19.11	July Dec	1360
134.4	Bank Leumi	£19½		-	-	-	1740
25.0	Bank Leumi (U.K.) £1	350		5.7	6.8	Mar Sep	1740
874.0	Bank Scotland	115	-0.4	5.3	8.10	Dec Jul	1742
98.5	Do. 9¼pc Ird Pf £1	98½	0.5	12.5	22.10	May Nov	1462
13.4	Bank of Wales	42		8.9	8.10	Nov Jun	1743
5,459.3	Barclays £1	344	-3.4	7.6	20.8	Oct May	1754
6.44	Benchmark 20p	12	20.0	8.3	9.4	May Oct	1802
31.1	Brown Shipley £1	195	-4.9		10.12	Jan Aug	1983
93.4	Cater Allen £1	394	1.0	8.3	19.11	Jan Aug	2081
9.18	Chancery	44			25.6	Jan July	2102
400.9	Commerzbk DM10	£15¼	1.0	3.9	27.5	May	1046
[illegible]	Dai Ichi KBk Y50	762	1.6	0.4	4.7	June	3221
6,487.2	Deutsche Bk DM50	£200[illegible]	-2.9	2.3	17.5	May	2345
173.8	Espirito Santo	£16¼	-1.5	2.3	-	June	5187
278.1	First Nat. Fin. 10p	172	-3.4	10.6	9.7	Mar Aug	2571
41.7	FNFC 6.3pc Cv Pf £1	86		9.8	31.12	July	2570
[illegible]	Fuji Bank Y50	915	-2.6	0.4	4.7	Dec June	1084
121.4	Gerrard & National	312	-1.0	8.1	22.10	June Dec.	2686
45.4	Guinness Mahon 10p	70	-4.1	2.8	10.12	July Feb	5074

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS – Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ELECTRICALS – Contd

ELECTRICITY

ENGINEERING

ENGINEERING – Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.) – Contd

INSURANCES

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

LONDON SHARE SERVICE

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MOTORS, AIRCRAFT TRADES – Contd

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY – Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

INVESTMENT TRUST

[illegible]

INVESTMENT TRUST – Contd

[illegible]

INVESTMENT TRUST – Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS – Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES – Contd

[illegible]

Tins

[illegible]

Miscellaneous

12.4	Greenwich Res 5p.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
964.1	Homestake Mining $1.	18	....	–	–	–	2773
11.1	Ivernia West	35	–12.5	–	–	–	2916
1.06	Kells Mins. Ir5p. y	44	–4.3	–	–	–	–
4.32	Kenmare y	9	–25.0	–	–	–	3741
0.81	Navan Resources y	15	–11.8	–	–	–	1453
–	New Sabina Res C$1	11	–12.0	–	–	–	1185
8.07	Northgate Expl. C$1	64	10.3	–	10.77	–	–
–	Nor-Quest Res.	3½	....	–	–	–	–
320.1	Oryx Gold Hldgs.	194	14.8	–	–	–	3686
1.25	Ovoca Gold IR 2p. y	18	....	–	–	–	1470
8.23	Plateau Mining 20p. y	44	....	–	–	–	3407
4,284.6	RTZ 10p. α	426	0.7	5.8	24.9	Dec Jul	3880
–	Thorco Res. Inc.	6½	12.5	–	–	–	–
5.35	Vizcaya Hldgs 5p. y	16	....	–	–	–	4193
12.4	Young Group 10p. y	133	....	7.8	10.9	Apr Oct	5080

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- ‡ Price at time of suspension
- ♦ Not comparable
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. c Cents. e Redemption yield. f Flat yield. k Kenya. C Canadian. E Minimum tender price.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1 y	700	....
Finlay Pkg. 5p. y	38	....
Holt (Jos) 25p. y	1365	....

IRISH

Cap. 8½% Ln. 1991	£98¼	....
9pc Cap Ln. 1996	£93¼	....
Fin. 13% 97/02	£109¼	....
Arnotts	155	....
Carrol (P.J.)	154	....
Heiton Hldgs. y	43	....
IRG	135	....
United Drug	130	–3.7

TRADITIONAL OPTIONS

3-month call rates

[illegible]

FT Share Service

The following changes have been made to the FT Share Information Service:
Additions: Aberforth Smaller Companies Trust (Investment Trusts) Do. Warrants (Investment Trusts)
Deletion: BHP Gold Mines (Mines/ Australians)

4pm prices January 11

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- A - A - A -								
35⅞	8⅛	AAR	.48	4.7	9	770	10⅛	10	10¼	
9¼	7⅞	ACM n1.03e		12.		178	8⅞	8¾	8⅞	
11⅞	8¼	ACMIn 1.26		12.		767	10¾	10⅝	10⅞	
9¼	6½	ACM M n1.01		13.		606	7⅞	7¾	7⅞	+ ⅛
12¼	10	ACMMM 1.50		12.		147	12¼	12	12¼	
11½	8⅝	ACM Sc1.28		12.		689	10¼	10⅛	10⅛	
9⅞	7¼	ACMSp 1.01		12.		470	8⅝	8½	8½	
25¼	17	AL Lab	.16	.7	18	1136	22⅛	21⅞	22	− ¼
4⅛	1	AM Intl				780	1⅛	1	1	
18⅞	4⅝	AM In pf	2	26.		21	7⅞	7⅝	7⅝	
70¼	39¾	AMR			14	5718	47¼	46¼	46⅞	− ⅛
4	1¼	ARX				218	1⅜	1¼	1⅜	
72⅞	38¼	ASA	3	6.4		978	47½	46⅞	46⅞	
3½	1⅞	ATTC wt				370	2⅝	2⅝	2⅝	
46⅞	31¼	AbtLab s .84		2.1	19	3386	41	40½	40⅞	+ ⅛
14	9⅞	Abitibi g .50				25	10⅛	10	10	− ⅛
9⅞	5	AcmeE .32		6.2	8	10	5⅛	5⅛	5⅛	
32⅞	18⅞	Acuson s			20	1147	26¼	25¼	25¼	− ⅜
16⅞	14⅛	AdaEx 1.72e		12.		248	14⅞	14½	14⅝	− ⅛
14½	8⅝	Adobe				138	9	9	9	+ ⅛
19⅞	16	Adob pf 1.84		11.		4	17⅛	16⅞	17⅛	+ ⅜
21⅝	18⅞	Adob pf 2.40		12.		11	19½	18⅞	19½	+ ½
11⅛	3⅝	AMD				3367	6⅛	4⅞	6	+ ⅛
32⅞	13	AMD pf	3	15.		17	20⅛	20⅛	20⅛	+ ⅛
7½	1⅝	Advest	.16	6.4		12	2½	2½	2½	
58⅞	29	AemLf 2.76		7.8	8	1630	35⅞	34⅞	35⅞	+ ⅝
11⅞	6¾	AffPb	.24	3.3		3437	7⅝	7¼	7¼	− ⅛
22½	10⅝	Ahmans .88		7.0	6	1637	12¾	12½	12½	− ⅛
3⅝	1⅞	Aileen			7	132	3⅛	3	3⅛	+ ⅛
61	42⅞	AirPrd 1.44		2.7	13	2182	54	52⅝	53⅝	+ ⅞
27	13½	AirFrt s .30		1.7	8	151	17⅝	17¼	17¼	− ⅛
20	11¼	Airgas			16	14	13	13	13	
20⅛	10	Airlease 2.52		22.	6	95	11½	10⅞	11⅜	+ ½
[illegible]										

Continued on Page 31

NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		- X - Y - Z -								
58¼	29	Xerox	3	7.5	7	5814	40½	39⅝	40	+ ¼
48½	42½	Xerox pf	4.13	9.4		8	44¼	44	44	+ ⅛
32¾	13	XTRA	.72	4.8		130	15⅜	14⅞	15⅛	+ ⅜
26	12½	XTRA pf	1.94	13.		37	15	14¾	14¾	+ ⅛
3⅝	5-16	Zapata				413	⅞	13-16	13-16	- 1-16
8⅝	3	Zemex				12	4¼	4⅛	4¼	
13⅛	4	ZenithE				520	6⅞	6⅛	6⅞	
18¼	9⅞	ZenNtl	1	7.5	9	31	13¼	13¼	13¼	
7½	4⅞	Zenix	.93	20.		67	4⅞	4½	4⅝	- ⅛
17⅛	8⅞	Zero	.40	3.6	12	10	11⅛	11	11⅛	+ ⅛
61⅛	28⅞	Zurnin	.88	2.8	14	467	32¼	31	31½	- ⅝
12⅞	10⅛	Zweig	1.07e	10.		353	10⅝	10½	10½	
10	7⅞	ZweigTl	.96	11.		834	9	8⅞	8⅞	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months g-dividend in Canadian funds, subject to 15% non-residence tax i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed wi-when issued ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield z-sales in full.

AMEX COMPOSITE PRICES

4pm prices January 11

Stock	Div.	P/ E	Sls 100s	High	Low	Close	Chng
PhILD	.16e	4	324	9¼	9⅛	9¼	+ ⅛
Pitwy A	1.10	7	14	16⅝	16⅛	16⅝	+ ½

NASDAQ NATIONAL MARKET

4pm prices January 11

هكذا من الأهل

MONDAY INTERVIEW

Critic of current war fever

Lee Hamilton, Democratic congressman for Indiana, talks to **Peter Riddell**

When Democratic congressman Lee Hamilton urges caution – as he has over taking early military action in the Gulf crisis – people in Washington take notice. After 26 years representing a rural district in south-eastern Indiana, Mr Hamilton has become one of Capitol Hill's most influential voices on foreign policy issues.

With his unfashionable greying crew cut and low-key Indiana accent, Mr Hamilton looks and sounds like the epitome of Midwestern commonsense. He is the opposite of the blow-wave/sound-bite generation of politicians.

Currently the second senior Democrat on the House Foreign Affairs committee, and chairman of its Europe and Middle East sub-committee, Mr Hamilton gained national attention as the House leader of the 1987 inquiry into the Iran/Contra scandal. He was on the shortlist of possible Democratic presidential candidates in 1988 and could easily be secretary of state if, and when, his party regains the White House.

For all his extensive travel and international contacts – including a year studying at Goethe university in Germany – Mr Hamilton keeps close to the feelings of Middle America, and its doubts in the current crisis.

He was co-sponsor of the Democratic leadership resolution in favour of continuing sanctions and against immediate war. This was defeated in both houses at the weekend, mainly thanks to the shift of many conservative Democrats behind Mr Bush. But the closeness of the vote, the narrowest on an issue of war and peace for 179 years, was only because mainstream Democrats such as Mr Hamilton and Senator Sam Nunn urged caution. Mr Bush won the backing for force he wanted, but the doubts and divisions remain.

The opinion of Congress matters because under the US constitution it plays an important part in decisions over war and peace, despite Mr Bush's claims to have authority as commander in chief to order military action. This contrasts with the largely passive role of the British parliament and reflects the deliberate reaction of the American founding fathers against the concentration of too much power in the hands of the executive.

Mr Hamilton accepts that Congress is not "the chief foreign policy maker. We are an important voice, but a junior partner compared to the president. Only rarely does Congress initiate foreign policy; imposing sanctions against South Africa was an exception."

But when it comes to a matter of going to war – "the gravest decision that government makes" – he argues that "under our constitution it ought to be a shared responsibility between the Congress and the president, not a decision made by the president alone. We must participate in that decision."

Mr Hamilton notes that when he is sworn into the House he takes "an oath to affirm and uphold the constitution of the US. I believe that oath requires us to protect the constitutional prerogatives of Congress. I do not think other members would disagree with that. The disagreement comes over whether you are exercising your constitutional prerogatives by simply handing over to the president the authority to make the decision, or whether you exercise them by making that decision yourself."

Mr Hamilton differs with the president not just about the constitutional role of Congress but also about when force should be used. Before Christmas, he irritated the normally unruffled secretary of state, Mr James Baker, by pressing him about whether sanctions had been given enough time to work. The resolution Mr Hamilton sponsored in the House for the Gulf debate reflects his view that "patience is still required and the present strategy of economic sanctions, diplomacy and the threat of force is the right one.

"There is enough evidence that the strategy is achieving our goals. We have got the hostages back. We have succeeded in defending Saudi Arabia. We have stability in the Gulf. The oil is still flowing. Now we have not restored the emir of Kuwait and we have not got Kuwait back. The strategy has been partially successful. There is evidence that sanctions are working reasonably well and are grinding down Iraq and we ought to stay with it. You have to put into the calculation the alternative, which is, of course, war. And war means death and destruction and casualties."

Mr Hamilton carefully notes that Mr Bush has never said the US should use force; he has only threatened the use of force. But the president has "made a lot of statements to make a lot of people, including myself, think that he is prepared to go to war very soon. I do not believe that. I do not rule out the use of force. I agree with the president's goals, and thus far at least with his strategy, and if, say, some time down the road, March or April, I make the judgment that the strategy is not working, then we might have to resort to force."

'There is evidence that sanctions are working'

He recognises the widespread unease expressed in the congressional debates that the US faces by far the largest military and financial burden of the crisis, compared with the token contributions from European allies more dependent on Middle Eastern oil. "There is a disappointment – in Washington and in the Congress – with the performance of some allies in the crisis, particularly Germany and Japan, and an appreciation with regard to the UK and its very strong support. Those concerns are going to have some impact. You see things, for example, like bills being introduced to the effect that import duties will be levied unless the coalition partners pay their full share. These are not majority resolutions, but they indicate a significant sentiment in the Congress."

These views may, he concedes, affect the debate on the post-cold-war world. "There is a disappointment here that we have not had more of a response on the military side from our allies. The debate that was occurring on the new security regime for Europe has been delayed as we have focused almost exclusively on the Gulf."

The crisis has made "us more aware here of the unwillingness of some of our European partners to move outside of Europe in seeing a responsibility beyond Europe".

A committed internationalist, Mr Hamilton is unsure what President Bush means by a "new world order" – a phrase he finds vague and not clearly defined. "When he (Mr Bush) really speaks about it, he talks of it almost in terms of the 1930s. It is not a new world order; it comes down to opposition to aggression. Now there is obviously some validity to that. We are moving beyond the cold war. It is a different set of circumstances. But the phrase needs content for me to understand it a little better."

In the Middle East context, Mr Hamilton – who has sought to balance Israeli and Arab concerns – argues that a security regime for the region in the post-crisis period would try to limit the proliferation of weapons, not just nuclear but also conventional. A coalition of nations, predominantly Middle East countries, but probably including the US as well, should be developed to assure security. "I do not know that I see that as a new world order. I see that as a continuation of what we have had." He also believes there is little question that there will be a substantial American military presence.

However, Mr Hamilton acknowledged that there is a real ambivalence among Americans about their country's leadership role. "Americans are, on the one hand, very proud of the role of the US as being world leader, very conscious of the fact that there's only one superpower today. But at the same time they have a great sense of unease about the burdens that the role requires, both in terms of people, men and women in the services, and money. You detect in almost any American audience today that they want to go both ways. They want to be the world leader, but they want to focus more attention on problems here at home. They are getting weary of the tax and military burdens."

There is a danger, Mr Hamilton concedes, of a reaction against international commitments. "There is a resurgence of the old isolationism, usually identified with our Midwest. It can be easily exaggerated, but it is clearly present among the American people. It is present in Indiana. I would not predict that it would become the majority view in the US, but it is a force to be reckoned with."

PERSONAL FILE

- **1931** Born in Florida, son of Methodist minister. *Grew up in Indiana.*
- **1952** Graduated from DePauw University.
- **1956** Doctorate from Indiana University, then practised as a lawyer.
- **1964** Elected to House of Representatives. Early critic of Vietnam War.
- **1985-86** Chairman of House intelligence committee.
- **1987** Chairman of special joint committee into Iran/Contra affair.
- **1989-90** Chairman of Joint Economic committee of Congress; second senior Democrat on House Foreign Affairs committee and chairman of Europe and Middle East sub-committee.

Penury at the federal, state and municipal levels

MICHAEL PROWSE on America

When the US went to war in Korea and Vietnam, it at least had the comfort of a strong domestic economy. Today, with war threatening in the Gulf, the US is in recession and facing a fiscal crisis at all levels of government – federal, state and local.

The White House will shortly publish budget plans that project a federal deficit for this year of about $300bn, the largest in history. Even excluding the $90bn cost of bailing out bankrupt savings and loan institutions – which might be regarded as an exceptional expense – the deficit is likely to exceed $200bn. And this does not allow for the costs of the Desert Shield operation, which will escalate rapidly if shooting starts.

But the federal red ink is only the beginning of America's budgetary problems: states, cities and local governments are also experiencing a dramatic deterioration in their finances. And they, unlike the federal government, cannot postpone the agony by running big deficits: every state – except Vermont – is constitutionally obliged to balance its budget over a one-year or two-year period.

More than half of the 50 states will have to make painful spending cuts or raise taxes to curtail looming deficits. Some states, particularly in New England, are in horrendous fiscal shape. Taking office as Connecticut's governor last week, Mr Lowell Weicker, an independent, said the state's deficit had "taken control of our lives, colouring all else as it climbs beyond comprehension". He faces a $1.5bn shortfall, equivalent to 21 per cent of the state's budget. New York is in little better shape.

On the west coast, Mr Pete Wilson, the incoming Republican governor of California, is also facing an unprecedented fiscal crisis. Spending is growing twice as fast as revenue and the state's deficit threatens to spiral towards $6bn.

The gathering recession is the immediate cause of problems at both federal and state level. Tax receipts are depressed and the case load on welfare programmes is rising rapidly. But the states are also confronting deeper, structural problems. President Ronald Reagan's "new federalism" reforms of the early 1980s transferred social responsibilities to the states while simultaneously cutting federal grants. The total federal contribution to state and local budgets has fallen in real terms and is only 17 per cent of revenues compared with 25 per cent a decade ago, according to an analysis of deteriorating state finances in the Federal Reserve's December bulletin.

Cities, which face the worst social problems, have been hit hardest. Federal support for the District of Columbia has fallen from 37 per cent of the budget in 1975 to under 15 per cent today. And the grant has been frozen for the past five years while the murder rate and homelessness have risen steeply.

During the boom years of the middle 1980s, revenues were so buoyant that the contradictions implicit in new federalism went largely unnoticed. Now, however, the screws are tightening. State and local governments are responsible for nearly all spending on both education and prisons, two areas where demands are soaring. Education spending has increased by nearly 40 per cent in real terms over the decade as local communities have sought to raise standards.

Spending on "corrections" – prisons, parole and related costs – has nearly doubled. This partly reflects increases in drug-related violent crime but is mainly a result of public demands for more draconian punishment. According to Sentencing Project, an organisation that promotes alternatives to incarceration, the US prison population has doubled since 1980 to 426 inmates for every 100,000 residents, far higher than in either South Africa or the Soviet Union.

Medicaid, the state-federal programme that provides health care for the poor, is also creating acute pressure on state budgets. The state share absorbs more than 10 per cent of state budgets compared with 3 per cent in 1970. The burden is certain to grow heavier given the "graying" of America, the intractable nature of health cost inflation and Congress's insistence that more poor children and pregnant women be covered by the scheme.

The sea of red ink is proving a troubling dilemma for America. In last November's elections, many state and local politicians were thrown out of office for proposing or implementing tax increases in 1990. In New Jersey, Governor Jim Florio, a liberal Democrat, pushed through a $2.8bn tax increase in an attempt to shift resources to desperately poor inner city districts. It caused a severe backlash, nearly unseating Mr Bill Bradley, a popular Democratic senator up for re-election. Now Mr Florio is beginning to backpedal.

But the difficulties are not going to disappear. The states and cities are wrestling with real problems: crumbling infrastructure, poor schools, violent crime and shocking gaps in health care coverage. Some savings are possible – especially in law and order where much greater use of non-custodial sentences should be a priority. But in general the spending is necessary to maintain the social and economic fabric of the nation.

A restructuring of responsibilities, with the federal government picking up the full tab for Medicaid and welfare programmes, could help ease the states' budgetary problems. This, after all, would merely put discretionary programmes for the poor on the same footing as entitlement programmes for the middle classes.

But the bottom line is that the US simply cannot meet its domestic and global responsibilities without taxing its citizens a little more heavily. This would not seem such a bitter pill if more Americans understood how comfortably people can live in a highly taxed – but dynamic – economy such as Germany.

Protecting civil rights in law

JUSTINIAN

In unveiling its Charter of Rights the Labour party has publicly announced a package of proposed legislation as "a central part of Labour's *programme of constitutional* reform". Apart from a vague, undefined proposal to create an elected second chamber and to engage in the devolution of government "to the nations and regions of Britain", there is nothing constitutional about *the contents of the charter.*

Individual items of law reform are valuable in giving greater protection to civil liberties – the commitment to *establish a right to know* through a freedom of information law is long overdue – but the programme is redolent of traditional beliefs and conventional ideas which permeate a party of the Left which clings to democratic socialism.

Cases judged in Strasbourg could have had the same result had English courts had the power

The key to the Labour party's tergiversation on the growing demand within its own ranks lies in double-think about Europe. It endorses the implementation of the Single European Act in 1992, and thus presents itself to the electorate politically as the party of Europe. But it then declares that the "traditional European approach to rights has been based on statements of general principle".

The Labour party rejects such an approach as inappropriate for Britain. It cites events of the 1980s in connection with which many rights were eroded by "government action and judicial intervention". Labour instead rests its faith in the enhancement of individual rights through specific pieces of legislation. All this is longhand for saying two things. The Labour party will not incorporate, even by a single act of parliament, the European Convention on Human Rights. Second, it perpetuates a long-standing attitude towards judicial action in pro*tecting civil liberties. Both* attitudes are fundamentally flawed. They also misinterpret the *mood of the British elector*ate as it emerges from a period of decline in civil liberties.

The European Convention on Human Rights was promoted and largely drafted by the British government in the immediate post-war years. Since 1966, the right of individual petitions to the European Commission for Human Rights at Strasbourg has been granted and continuously exercised. A number of gains in the rights of British citizens has been achieved through one or more of about a dozen articles declaring in broad terms the fundamental freedoms.

Many of the cases that have gone to Strasbourg could have produced the same satisfactory result at home, and more speedily, if only English courts had possessed the power directly to enforce the Convention. Constitutional reformers – at least the 20,000 or so who lent their support to Charter '88's agenda of over-arching constitutional government – have been over-ambitious to *the point of scaring off some* centrist reformers. The simple enactment of the European Convention, with no greater status than any other act of parliament, should be the immediate prize to which any moderately liberal politician should aspire.

The Labour party's refusal to espouse so modest a piece of *reform* to enhance our civil liberties stems from its innate and absurd hostility to the judiciary. Labour does not see government as being tripartite – comprising the executive, the legislature and the judiciary – but as consisting of *the first two branches only*, with the courts on the periphery of political power. *According to this view*, the courts exercise little or no influence beyond the adjudication of pri*vate disputes between citizens*. Judicial review, which has developed so dramatically in *recent years as a means of* supervising administrative action, is unloved by Labour *politicians unless it happens to* effect some curb on Conservative government.

Towards the end of the spate of litigation between central and local government which was spawned by the impact of rate support grant legislation, and which was a feature of the 1980s, I was briefed to appear on behalf of the Department of Environment in one such case. During a lull in the lengthy conferences with legal advisers and senior civil servants, I ven*tured a consoling remark*. Were the civil servants not heartily tired of the incessant *flow of applications for judicial* review which involved the Department in an immense amount of time spent drafting affidavits, preparing instruc*tions to lawyers and attending* tedious court appearances?

The contradictory reply from a senior civil servant shook me at the time but has remained vivid in my mind. He was mightily glad of traditional intervention, at least in the *field of local government* finance. At a time when ministers in his department, enjoying huge parliamentary majorities, were free to indulge their legislative appetites to effect *policies unendorsed by the* electorate, it was essential, my interlocutor said, that the exec*utive branch of government* should be made accountable, if only in the limited way offered *by judicial control and ministe*rial action.

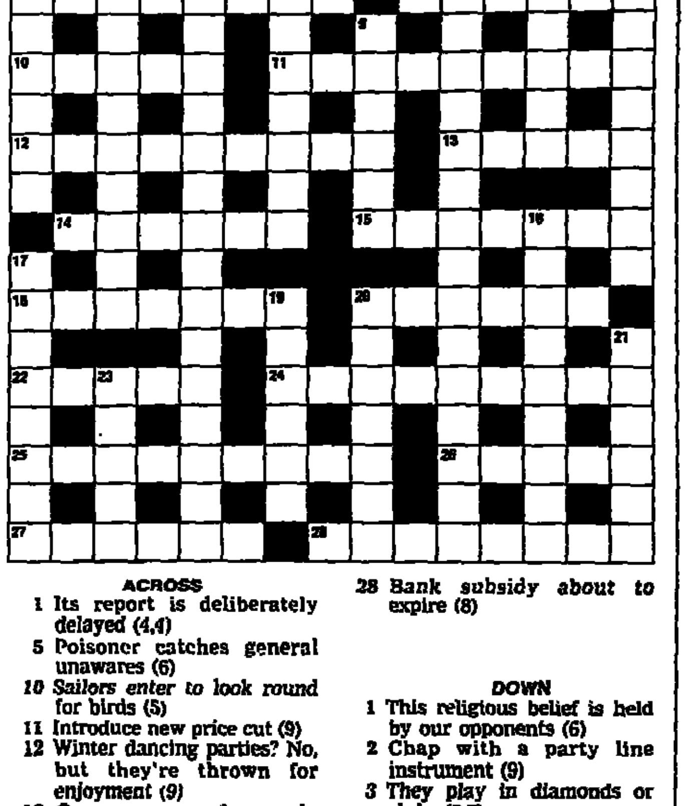
Liberal politicians should aspire to the simple enactment of the European Convention

It was time, he said, that the *courts came to the aid of the* parliamentary process of keeping the executive in check, just *as in days gone by parliament* had won for the courts their independence from the executive.

JOTTER PAD

CROSSWORD

No.7,441 Set by DANTE



ACROSS

1 Its report is deliberately delayed (4,4)
5 Poisoner catches general unawares (6)
10 Sailors enter to look round for birds (5)
11 Introduce new price cut (9)
12 Winter dancing parties? No, but they're thrown for enjoyment (9)
13 One group of people includes him (5)
14 Fires round about fifty guns (6)
15 I've entered into neat arrangement that's simplicity itself (7)
18 No quick-growing plant? (7)
20 It sounds alarmingly like poison (6)
22 The "thank you" letter of a Greek (5)
24 University having two scholars in exchange (4,5)
25 Gives generously when there's a whip-round? (6,3)
26 Abolish article from a year-book (5)
27 Excitement created by the coming down of an astronaut (6)
28 Bank subsidy about to expire (8)

DOWN

1 This religious belief is held by our opponents (6)
2 Chap with a party line instrument (9)
3 They play in diamonds or clubs (8,7)
4 The Rolling Stones? (7)
6 CO2? (6-2-7)
7 Observing, for example, taking in one principle of Chinese philosophy (5)
8 Provided with wings but powerless to use them? (8)
9 A famous man, but there's no side about him (6)
16 About sixteen at church – miserable living! (9)
17 Nuts are found in them, and bolts (8)
19 A cause to argue (6)
20 Make up pet term for the devil (7)
21 Band member with permit (6)
23 School equipment gives comfort to the learner (5)

The solution to last Saturday's prize puzzle will be published with *names of winners on Saturday January 26.*

Continued on Page 31